

Asia's Bilateral Relations



Asia-Pacific Center for Security Studies

Contents

Foreword

H . C . STACKPOLE
Lieutenant General, U.S. Marine Corps, Retired
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Editor's Note

SATU P. LIMAYE

- chapter 1 **Russia-India Relations: Stability Amidst Strategic Uncertainty**
ROUBEN AZIZIAN
- chapter 2 **China-Philippines Relations: Cautious Cooperation**
CARL BAKER
- chapter 3 **India-Iran Relations: A Deepening Entente**
DONALD L. BERLIN
- chapter 4 **Japan-Taiwan Relations: A Case of Tempered Optimism**
DAVID FOUSE
- chapter 5 **India-China Relations: Giants Stir, Cooperate and Compete**
MOHAN MALIK
- chapter 6 **China-Russia Relations: Can "Bamboo and Pine Trees" Grow Together?**
ALEXANDRE Y. MANSOUROV
- chapter 7 **Russia-Japan Relations: Prisoners of History?**
JOHN H. MILLER
- chapter 8 **Australia-New Zealand Relations: Allies, Friends, Rivals**
JIM ROLFE
- chapter 9 **China-Japan Relations: Cooperation Amidst Antagonism**
DENNY ROY
- chapter 10 **China-South Korea Relations: Elder Brother Wins Over Younger Brother**
DENNY ROY
- chapter 11 **Japan-Australia Relations: Friends But Not Allies**
YOICHIRO SATO
- chapter 12 **Australia-Papua New Guinea Relations: New Pacific Way or Neocolonialism?**
ERIC Y. SHIBUYA
- chapter 13 **Australia-Indonesia Relations: Getting Beyond East Timor**
ANTHONY L. SMITH
- chapter 14 **Malaysia-Singapore Relations: Never Mind the Rhetoric**
ANTHONY L. SMITH
- chapter 15 **India-Pakistan Relations: Breaking With the Past?**
ROBERT G. WIRSING



Asia-Pacific Center for Security Studies



SPECIAL ASSESSMENT

OCTOBER 2004

Asia's Bilateral Relations

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Foreword

H . C . S T A C K P O L E

Lieutenant General, U.S. Marine Corps, Retired
President, Asia-Pacific Center for Security Studies

This assessment looks at the influence of Asia's bilateral relations in a highly charged and greatly changed world on the cusp of the twenty-first century. Relationships between China and India, China and Japan, and Russia and Japan, will have important implications for the region's overall strategic picture in the decades ahead. Two common elements emerge in this march through a seeming maze of bilateral relations between highly diverse nations seeking to escape the maze. One common element is economic interdependence driven by globalization powered by information technology. The other is the recognition of having to deal with terrorism with a multilateral approach. Bilateral relations in the region form the foundation for a multinational approach based on mutual benefit. The question is whether cooperation augurs well for acceptance of U.S. security leadership or will there be the emergence of a greater balance with the other nations achieving a degree of true equity in the creation of a stable Asia-Pacific region with balanced interests. In short, the central concerns of these analyses is how regional relationships affect, and are affected by, the United States.

The Asia-Pacific Center for Security Studies teaching and research faculty, in an effort to better understand the dynamics of these relationships and their implications for the United States and to share results of its findings with the wider government and analytic community, has produced this Special Assessment entitled *Asia's Bilateral Relations*. This is the third issue of our Special Assessment series.

I am pleased to present this publication with the hope that it will advance discussion and inform policy about Asia-Pacific security issues not only among the military and civilian leaders who attend our College of Security Studies executive and senior executive courses, but also among the government and policy analysis communities on both sides of the Pacific. It is by contributing to such discussions that the Asia-Pacific Center for Security Studies meets its mission to complement Pacific Command's (PACOM's) theater security cooperation strategy of maintaining positive security relationships with nations in the region as well as to enhance cooperation, and build relationships for a secure Asia-Pacific.



Asia-Pacific Center for Security Studies



SPECIAL ASSESSMENT

OCTOBER 2004

Asia's Bilateral Relations

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Editor's Note

S A T U P . L I M A Y E

Chair of Research & Publications

Asia's bilateral relations are as numerous and diverse as the countries of this vast region. Generalizations based on the examples of intra-Asian bilateral relations considered in this *Special Assessment* are therefore susceptible to being simplistic or banal. Still, a number of useful observations about Asia's bilateral relations may be made.

First, Asia's bilateral relationships constitute an important feature of the regional security environment. For all the din of discussion about an Asian concert of powers, possible condominiums, security communities, multilateral institutions, and various conceptual approaches to managing regional peace and prosperity, a basic element of Asia's security topography remains bilateral relationships. Indeed, these bilateral relationships, while they are not quite "building blocks" of a possible regional "security architecture," are certainly a variable in how and what kind of security management approaches evolve in Asia.

Second, Asia's bilateral relations are changing due to factors such as the end of the Cold War, different power trajectories, domestic changes, and economic compulsions. Mitchell Reiss, Director of Policy Planning at the U.S. State Department, alluded to the dynamics of intra-regional bilateral relations in a May 2004 speech at the Asia Foundation in Washington, D.C. While noting the improvement of U.S. relations with major Asian countries, he also noted "these states [Japan, China, India, Russia] are *themselves* [emphasis in original] remaking their relations with one another." The "remaking" of bilateral relationships is far from problem-free or complete. Historical animosities and other disputes continue to shape Asia's bilateral relationships. However, prospects for military conflict among the relationships considered in this assessment are low. The relative weight of politico-military factors in shaping Asia's bilateral relations has dropped as economic considerations have risen to the fore. John Ravenhill, in a 2003 article entitled *The New Bilateralism in the Asia Pacific*, notes "In the past four years...more than 20 preferential schemes involving two or more Western Pacific countries have been put forward."

Though, not all of these arrangements are intra-Asian, many are. Even absent formal bilateral agreements, trade and investment are increasingly shaping, generally positively, intra-regional bilateral relations.

There are also several implications of Asia's bilateral relations for the United States. First, for the foreseeable future, no Asian bilateral relationship poses a serious threat to American interests. This contrasts with the period of the Cold War when Sino-Soviet relations, at least until their falling out in the

mid-1960s, posed a direct and real challenge to American interests. Also problematic during those times were close India-Russia relations. Today, however, there are elements in both of these relationships that are not welcome from the American perspective—such as rhetoric and actions designed to “counterbalance” the U.S. and Russian arms sales to India and China. But neither Russia-China nor Russia-India relations pose grave threats to American security. On the whole, parties to Asian bilateral relationships see the United States as more important to their interests than their bilateral partner. Asian states therefore sometimes seek to use their relationship with Washington to influence its relationship with a “local” state, but this very attempt also gives the United States an opportunity to influence Asia’s bilateral relations in ways consistent with American interests.

A second point of relevance to U.S. interests is that improvements in relations between the United States and most Asian regional countries outpace improvements in relations between Asian states—though this is not an even trend. Indeed, the very unevenness in the improvement of relations between the United States and Asian states creates difficulties for key relationships in the region. An example of this situation is New Zealand-Australia relations. The improvement in U.S.-Australia relations has outpaced improvements in U.S.-New Zealand relations. One result of this discrepancy has been to create some differences between Canberra and Wellington. The Japan-Republic of Korea, China-Russia, and India-China bilateral relationships face a similar situation.

Finally, the evolution of Asia’s bilateral relations are important to the extent that they bear on key U.S. regional priorities including consolidating relations with allies, friends and partners; great power cooperation; dealing with rising powers; and building coalitions of the willing.

These analyses are the contribution of an APCSS teaching and research faculty with keen insights, expertise, and experience on Asia-Pacific security issues. We hope this and other APCSS publications will inform the deliberations of policy makers and the analytical community on both sides of the Pacific.



SPECIAL ASSESSMENT

OCTOBER 2004

Asia's Bilateral Relations

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Russia-India Relations: Stability Amidst Strategic Uncertainty

R O U B E N A Z I Z I A N

Executive Summary

- Despite many predictions of its decline or even demise at the end of the Cold War, Russia-India strategic partnership has persisted and in certain areas—such as military cooperation—even deepened over the past fifteen years. There is national consensus in both countries for a strong and stable relationship with each other.
- India's rapprochement with the United States is uneven which requires New Delhi to stay close to traditional partners such as Russia, particularly when China remains a strategic rival or at least an unknown. Despite its close relations with Beijing, Moscow remains apprehensive of China and worries about becoming too dependent on China in the region. India supports Russia's preeminence in the former Soviet republics while Moscow continues to treat South Asia as largely an Indian domain.
- Russia and India promote a multipolar world because they consider U.S. predominance in international relations as harmful to their great power ambitions and interests. They also disagree with some of the United States' approaches to the war on terrorism, which they see as being beset by "double standards."
- The rise of Islamic radicalism, particularly in Afghanistan, and its spillover into Kashmir and Chechnya have become an additional motivator for a bilateral strategic partnership between Moscow and New Delhi. Russia and India offer each other mutual diplomatic support on the situation in Kashmir and Chechnya and closely interact in Afghanistan and Central Asia.
- At the same time, Moscow and New Delhi do not want to be constrained by their partnership in achieving broader strategic or economic goals. In the long term, the United States and China present more strategic and economic opportunities which, if successfully tapped, could reduce the level of Russo-Indian interaction.

INTRODUCTION

Despite the disintegration of the Soviet Union in 1991, the relationship between Russia and India remains one of considerable importance to both countries. The many forecasts of an imminent end to the Russo-Indian strategic partnership after the Cold War have proven to be wrong or at least premature. First, the Cold War legacy has not been fully eliminated in the world, and South Asia perhaps suffers from it more than any other region. Second, the U.S.-India rapprochement is uneven and controversial which requires New Delhi to maintain close ties to traditional partners such as Russia particularly when China continues to be a strategic rival or at least an unknown. Russian arms supplies remain a key factor in Indian military modernization. The rise of Islamic radicalism particularly through the Talibanization of Afghanistan and its spillover into Kashmir and Chechnya became an additional motivator for bilateral strategic partnership. Last and not least, Russia and India entered almost simultaneously into a process of economic reform and liberalization, which offers new opportunities for their bilateral relationship.

Since the early 1950s, New Delhi and Moscow have built friendly relations on the basis of *realpolitik*. India's nonalignment enabled it to accept Soviet support in areas of strategic congruence, as in disputes with Pakistan and China, without subscribing to Soviet global policies or proposals for Asian collective security. The most intimate phase in relations between India and the Soviet Union was between 1971 and 1976; its highlight was the twenty-year Treaty of Peace, Friendship, and Cooperation of August 1971 which committed the parties "to abstain from providing any assistance to any third party that engages in armed conflict with the other" and "in the event of either party being subjected to an attack or threat thereof ... to immediately enter into mutual consultations." India benefited at the time because the Soviet Union came to support the Indian position on Bangladesh and because the treaty acted as a deterrent to China. By the late 1970s, the Soviet Union was also India's largest trading partner.

PAINFUL ADJUSTMENT TO THE POST-COLD WAR ERA

When the Soviet Union disintegrated, India was faced with the difficult task of reorienting its external affairs and forging relations with the fifteen Soviet successor states, of which Russia was the most important. Independent Russia's first government made relations with the United States and the West in general its priority, and it expressed diminished interest in Asia and a strong will to distance itself from the legacy of Soviet foreign policy. Special relations with India were seen as one of those legacies. There was considerable pressure during that period to normalize relations with Pakistan and even supply arms to Islamabad. In November 1991, Moscow voted for a Pakistani-sponsored United Nations (UN) resolution calling for the establishment of a South Asian nuclear-free zone. Russia urged India to support the Treaty on the Non-Proliferation of Nuclear Weapons and decided in March 1992 to apply "full-scope safeguards" to future nuclear supply agreements. In 1993, under American pressure, Russia denied its former obligation to provide India with necessary technology to manufacture cryogenic engines for its rocket program. India was shocked, and openly questioned Russia's reliability and the independence of its foreign policy.

Russia's foreign policy, however, soon reverted from the idealism of the early 1990s to traditional *realpolitik*, which prompted an urgent effort to repair the damage in relations with India. President Boris Yeltsin's visit to India in January 1993 laid the foundation for the reinvigoration of bilateral relations. Moscow pledged to deliver cryogenic engines and space technology for India's space program under a \$350 million deal between the Indian Space Research Organisation (ISRO) and the Russian space agency Glavkosmos despite the imposition of sanctions on both organizations by the United States. In addition, Boris Yeltsin expressed strong support for India's stand on Kashmir and promised that Russia would not give arms to Pakistan. A defense cooperation accord aimed at ensuring the continued supply of Russian arms and spare parts to satisfy the requirements of India's military and promoting the joint production of defense equipment was signed. Bilateral trading, which fell drastically during the 1990-92 period, was expected to revive following the resolution of the dispute over New Delhi's debt to Moscow and the decision to abandon the 1978 rupee-ruble trade agreement in favor of hard currency. The 1971 treaty was replaced with the new Treaty of Friendship and Cooperation, which dropped security clauses that in the Cold War were directed against the United States and China.

Russia-India relations have been evolving successfully since then and in many directions. Political contacts are regular and at the highest level with annual summits convened in Moscow or New Delhi. Foreign policy coordination is notable both on global and regional issues, and cooperation in the military sphere is acquiring a higher level of sophistication, trust, and interdependence. Most importantly, the strategic uncertainty about the post-terrorist phase in international relations, if there is one, and its impact on regional interests of the great powers prompt Russia and India to closely interact for an indefinite period. While at the strategic level the relations are stable, both have to deal with some tactical challenges emanating mostly from pragmatic requirements of their domestic reforms and developments.

COMPLEMENTARITY OF NATIONAL INTERESTS

The January 1993 Treaty of Friendship and Cooperation and the October 2000 Declaration on Strategic Partnership serve as the two guiding documents of the post-Cold War Russo-Indian partnership. They state that the partnership between Russia and India is founded on the complementarity of national interests and geopolitical priorities. One factor of such complementarity is seen in "Russia's high standing as a world power" and India's leading role in the "immediate neighborhood, in Asia and beyond." Moscow continues to treat South Asia as largely an Indian domain and openly supports India's bid for permanent membership on the UN Security Council while India backs Russia's preeminent role in the former Soviet states, particularly in Central Asia.

This complementarity is however constrained by Russia's increasing dependence on China and India's evolving partnership with the United States. Despite being interested in Russia's strong geopolitical influence, New Delhi is unlikely to take Moscow's side in the event of a U.S.-Russia stand off, which could occur, for example, in one of the former Soviet states. Russia, in turn, though generally interested in the rise of India's regional influence, would be unwilling to support any Indian attempt to openly challenge China or resolve the Kashmir problem by force.

At the same time, the uncertainty about future U.S.-China relations ensures continuing mutual interest between Russia and India. As New Delhi continues to distrust Washington's regional agenda and particularly the United States' renewed alliance with Pakistan, a strong partnership with Russia remains viable though not as valuable as during the Cold War. Similarly, Moscow harbors suspicions about China while India presents no challenges and mostly opportunities for Russia's foreign policy. This may explain why Russia supplies more sophisticated weaponry to India than China. On the economic front, however, Russia and India are becoming less interdependent, while India and the United States are developing substantial economic ties. Similarly, a Chinese trade and economic partnership is much more promising to Russia.

TERRORISM UNITES

All the four major powers mentioned have a common agenda in fighting international terrorism but remain divided about the sources of terrorism and ways of dealing with the terrorist challenge. On this issue, Russia and India as well as China agree that the United States is deliberately broadening and manipulating the war on terrorism to enhance its global predominance. Along with the United States, Russia and India see China as largely undemocratic and therefore limited in offering political alternatives to distraught minorities. Based on these common positions, Moscow and New Delhi emphasize their "unique role and responsibility" as multiethnic, pluralistic states as defined by their 1994 declaration on the Protection of Interests of Pluralistic States.

Both sides regularly reiterate support for each other's territorial integrity and respect for each other's sovereignty. The joint statements between Moscow and New Delhi refer to Russia's support of the steps taken by India in Jammu and Kashmir in "combating international terrorism" and India's support for Russian action in Chechnya to protect its "territorial integrity and constitutional order." A joint statement—issued after the visit of Prime Minister Atal Bihari Vajpayee to Moscow in November 2003—urged Islamabad "to implement in full its assurances to prevent infiltration of terrorists across the Line of Control" and "to dismantle the terrorist infrastructure in Pakistan and Pakistan-controlled territory as a prerequisite for a purposeful dialogue between the two countries." Russia registered its appreciation and support for India's peace initiatives and "hoped that Pakistan will come out with a positive response."

Russia's uncritical support of India's anti-terrorist rhetoric on Kashmir prevents it from taking a more balanced approach on the India-Pakistan dispute and, more importantly, from developing stronger relations with Pakistan, which could help enhance Russia's image in the Islamic world and fight radical Islamic forces in the Caucasus and Central Asia. Likewise, New Delhi's uncritical support of Russia's policy on Chechnya distances India from Western democracies, who appeal to Moscow to use a more political rather than military approach to the Chechen situation.

AGAINST DOUBLE STANDARDS

Russia and India stress that they have been victims of terrorism and have a moral right to be proactive in the struggle against it. The two countries' perspective on terrorism is defined through the basic principles of Russian-Indian cooperation set forth in the Moscow Declaration on International Terrorism of November 6, 2001. The concrete steps are coordinated through the Joint Working Group on Combating International Terrorism, which was established in December 2002. India and Russia record "complete identity of views" on terrorism and call on the international community to take decisive action "against those who aid and abet terrorism across borders, harbor, and provide sanctuary to terrorists and provide them with financial means, training, or patronage."

The two countries stress that "international action against terrorism cannot be selective, but has to be uniform, comprehensive, continuous, and multifaceted." India and Russia call for giving up "double standards" in the war against terrorism and propose a "consistent and uncompromising" approach in tackling the menace. In a clear dig at the United States, India and Russia oppose unilateral use or threat of use of force in violation of the UN Charter and vow to work for establishing "a multipolar and just world order based on sovereign equality of all states, their territorial integrity, and noninterference in their internal affairs." Implied in the common stance of Russia and India on terrorism is a criticism of the United States' assumed prerogative to define terrorist states and proliferators of weapons of mass destruction.

AFGHANISTAN AND CENTRAL ASIA

The situation in the common neighborhood—Afghanistan and Central Asia—is of vital security interest to both Russia and India. Their cooperation on Afghanistan has been quite durable. Even during the Soviet occupation of Afghanistan, India was very restrained about the Soviet action, risking its reputation in the nonaligned and Islamic worlds. Moscow and New Delhi were supportive of the Northern Alliance and hostile to the Pakistan-supported Taliban. Russia and India cooperate closely in the construction efforts in Afghanistan and insist that these should be driven by "Afghan priorities." They underscore the need for the international community to remain engaged in the efforts to ensure the revival of Afghanistan as a sovereign and independent state, free from terrorism, drugs, and external interference. Russia and India are trying to minimize Pakistan's influence in Afghanistan and ensure that the Pushtu majority will not dominate Afghanistan at the expense of the traditionally more loyal Northern Alliance, which is made up of ethnic minorities such as Tajiks and Uzbeks. At the same time, Russia seems to be less "obsessed" than India with Pakistan's role in Afghanistan and focuses instead on Afghanistan's influence on the Central Asian region.

Russia and India have a vital interest in maintaining security, stability, and a secular order in the Central Asian region. With the exception of Tajikistan with whom India has been steadily developing military ties including a training base, India is much less ambitious in Central Asia than Russia, which has engaged three Central Asian states in a collective security treaty and four Central Asian states in the Shanghai Cooperation Organization (SCO) along with China. However, Moscow—wary of Beijing's increasing influence on Central Asian states—welcomes more Indian participation in regional politics and has been promoting India's membership in the SCO.

MILITARY COOPERATION

India relies heavily on Russia for its arms and Moscow enjoys the rewards of being New Delhi's largest supplier. New Delhi has bought \$33 billion worth of weapons from Moscow since the 1960s, and Russian weapons account for nearly three quarters of India's arsenal. For instance, the former Soviet Union and then Russia have built a total of sixty-seven naval vessels for India. Russia has provided India with more than 130 T-90S tanks, and more are being sent for assembly in India. Russia has also been delivering Su-30MKI jet fighters to India since 1996. More than 10,000 Indian officers have been educated and trained in the Soviet Union and Russia.

In January 2004, Russia and India signed nearly twenty contracts involving the provision of Russian weapons and technology. Under one of them estimated to be worth \$1.5 billion, Russia will upgrade the Admiral Gorshkov aircraft carrier and deliver it to India by '08. Gorshkov will give the Indian navy the capacity to put a carrier task force within the range of China. India will pay Russia only for the 20-year-old carrier's refurbishment, which will cost around \$650 million, plus an additional \$730 million for sixteen MiG-29 jet fighters and eight Ka-27 and Ka-31 naval helicopters. There has been considerable speculation about two "side deals" being covertly negotiated along with the Admiral Gorshkov package, both of which are probably related to New Delhi's ambitions as a nuclear power. India has shown considerable interest in leasing Akula-II class nuclear powered submarines from Russia as well as four TU-22 long-range bombers.

While both these pieces of hardware are capable of carrying and delivering nuclear weapons, New Delhi appears far more interested in the submarines. These highly sophisticated machines are difficult to detect, can remain under water for extended periods and—in the eyes of some members of the defense establishment—will enable India to have an effective sea-based nuclear deterrent. Both India and Russia claim that leasing Akulas would not violate the provisions of the nuclear nonproliferation treaty, which they interpret as covering only nuclear weapons technology and not nuclear-powered submarines.

With the signing of the Gorshkov deal, Russia continues to retain its position as the top supplier of defense hardware to India although New Delhi is also sourcing equipment from other countries. Recently the U.S. journal *Defense News* reported that the Indian government is working on a program whereby Israel would replace Russia as India's largest supplier of weapons and defense equipment by 2008. Israel is already the second-largest supplier of military systems to India, so this program could effect a major transformation in India's security relationships. Given the deep ties between the U.S. and Israeli defense industries, if this program does materialize it will also probably enhance the United States' competitive position in the Indian defense market and result in further increases in the already-rising amount of U.S. arms sales and security cooperation with India.

India's Parliamentary Standing Committee has urged the government to avoid overdependence on Russia for armaments and spare parts. The committee reportedly acknowledged Russia's previous contributions and reliability as a provider of defense equipment to India but cautioned that the current dependence on Moscow for almost 80

percent of its arms imports is unhealthy. It also observed that Russia was not providing military hardware on the same beneficial financial terms that it had during the Soviet era. Russia also has come under criticism for the quality of some of the deliveries and India's difficulty in obtaining and negotiating speedy delivery of spare parts for these weapons systems. Russia is worried about losing its predominance on the Indian weapons market and much to the chagrin of India, now mulls over selling arms to Pakistan. Following a trip to Pakistan in December 2003, Sergei Stepashin, head of Russia's Audit Chamber and former prime minister, announced that Pakistan could import significant amounts of Russian weaponry within the next three to four years.

In order to maintain the momentum in arms cooperation, Moscow and New Delhi have been steadily advancing their military cooperation to areas like joint research, development, and co-production. For example, they jointly developed and successfully launched the BrahMos cruise missile. India is collaborating with Russia on joint production of a fifth-generation fighter that Russia feels is vital to its military future. More broadly, India is the only country collaborating with Russia on joint production of sophisticated and futuristic weapons systems. Moscow is concerned that it will be gradually ceding some of its traditional or potential weapons markets to India as a result of such collaboration. Also, China is starting to demand more firmly that Russia offer the same opportunities to its own defense industry as it does to India. As a result of such pressure, Russian Defense Minister Sergei Ivanov has called for trilateral cooperation between India, Russia, and China in the sphere of defense and joint development of new weapons. According to Ivanov, this would also help promote stability and security in Asia. He however cautioned that the triangular defense cooperation could only come about after the three countries build strong political ties, which is currently problematic between India and China.

TRADE IS INSUFFICIENT

Russia and India are increasingly worried about the inadequacy of their bilateral trade cooperation, apart from the arms business, which has not been restored to the level of Soviet-Indian trade. The annual trade turnover is less than \$1.5 billion or ten times less than Russia's trade with China. Approximately 80 percent of the trade is on rupee-repayment track, which ends in 2005 as the rupee fund will be exhausted.

At the same time, the two countries have discovered promising avenues of cooperation in the energy and transport sectors. Russia is helping India build an atomic power plant in Kudankulam worth \$2.6 billion and explore hydrocarbon raw materials on a shelf in the Bay of Bengal. In turn, India's Oil and Natural Gas Company has invested \$1.7 billion in the Sakhalin-1 oil and natural gas project. An Inter-Governmental Agreement on International North-South Corridor between India, Iran, and the Russian Federation signed in September 2000, will facilitate movement of goods along the corridor connecting India through the sea route to Iran and then via the Caspian Sea to the Russian Federation and beyond. This new initiative is expected to reduce transit time and the cost of transporting goods to the Russian Federation and European countries.

CONCLUSION

Russia-India relations have clearly withstood the test of time and change in international relations since the end of the Cold War. Both countries have common security concerns primarily driven by the terrorist threat and common geopolitical interest based on mistrust of the United States' and China's strategic goals and policies. They are complementary as well as innovative in military cooperation, which remains very substantial.

There is national consensus in both countries on the need for a strong and stable relationship with each other. Since the Indian Congress Party has always had better ties with Moscow, the bilateral partnership is likely to grow even stronger after India's recent elections.

At the same time, Moscow and New Delhi do not want to be constrained by their partnership in achieving broader strategic or economic goals. In the long term, the United States and China present more opportunities for each of them strategically and economically which, if successfully tapped, could reduce the level of Russo-Indian interaction. But the *ifs* are too many to cast a shadow in the foreseeable future on the successful Russia-India partnership.



Asia-Pacific Center for Security Studies



SPECIAL ASSESSMENT

OCTOBER 2004

Asia's Bilateral Relations

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China-Philippines Relations: Cautious Cooperation

C A R L B A K E R

Executive Summary

- Their South China Sea territorial dispute remains a critical factor in bilateral relations between China and the Philippines. Although they have agreed to work within the framework of the Association of Southeast Asian Nations (ASEAN) conflict resolution mechanisms to resolve the matter in a friendly manner, both countries continue to make competing territorial claims in the area.
- Despite the ongoing South China Sea dispute, both Manila and Beijing have used China's strategic engagement with ASEAN as a means to improve bilateral relations. As a result, there is a growing anticipation in the Philippines that China will present an opportunity for both expanded trade and economic assistance.
- The Philippines remains committed to the One China policy and will not let promises of financial rewards influence a decision to afford diplomatic recognition to Taiwan despite lingering sentiment among some in the Philippine Congress and the business community for a pro-Taipei position.
- While improving relations with China, Philippine authorities have consistently drawn the connection between its cooperation with the U.S. global war on terrorism and an expectation that the United States will reciprocate with assistance in the external defense of the Philippines should the need arise. This approach indicates that the Philippines remains wary of China's long-term intentions and that the United States will continue to play a role in shaping the relationship.
- By reinvigorating its military alliance with the United States, the Philippines may be in the undesirable position of having to choose between security cooperation with the United States and economic cooperation with China in the event of a confrontation between the two over Taiwan. The Philippines hopes to avoid having to make such a choice.

INTRODUCTION

In a speech given in October 2003, the Chinese ambassador to the Philippines began by saying, “China and the Philippines are friendly neighbors separated only by a strip of water and the two peoples have enjoyed a time honored friendship and cooperation dating back to 1,700 years ago.” With the end of the Cold War, this bilateral relationship has the potential to become a pivotal factor for both ASEAN-China relations as well as U.S.-China relations. For China, the Philippines represents a significant challenge to its strategic engagement with Southeast Asia. By trying to leverage its cooperation with the United States on the global war on terrorism as a security buffer against China, the Philippines may find itself caught in the middle of a Sino-U.S. conflict over Taiwan. There are three interrelated issues that have shaped and will largely determine the future course of Sino-Philippine bilateral relations. They are Philippine adherence to the One China policy, the South China Sea territorial dispute, and China’s commitment to strategic engagement in ASEAN. If both sides perceive progress in these areas, relations are likely to improve. Conversely, conflict in any of these areas is likely to push the two sides apart and result in the Philippines working to draw support for its position from both the United States and its ASEAN partners.

Direct bilateral relations between the two countries extend back to the tenth century when Chinese traders plied regional ports, and a small community of Chinese merchants stayed to establish a permanent presence in the Philippines. During the Spanish colonial era, Manila became an important entrepot for the galleon ships as well as a destination for large numbers of Chinese agents and brokers associated with the trade. With subsequent intermarriages, upwards of half of today’s Filipinos claim at least some percentage of Chinese ethnic heritage. Except for a brief encounter in the early fifteenth century when Ming Emperor Yung Lo attempted to impose Chinese control over the island of Luzon, the two countries have been willing to maintain friendly relations while leaving ownership of the “strip of water” (South China Sea) somewhat ambiguous. Throughout the Spanish and American colonial eras, Sino-Philippine relations were subsumed in the larger perspective of Spanish and American affairs in the sense that Philippine representation was controlled by the colonial power. After independence in 1946, the Philippines, as an American Cold War ally, followed Washington’s lead by recognizing the Republic of China (ROC) as the legitimate Chinese government in Taiwan until 1975.

THE ONE CHINA POLICY

Following official recognition of the People’s Republic of China (PRC) in 1975, the Marcos administration moved aggressively to improve relations. The decision to establish relations with the PRC was domestically justified in terms of reducing Chinese support for insurgents associated with the Communist Party of the Philippines. These insurgents were believed to be receiving moral inspiration and monetary support from the PRC and, by extension, the local Chinese community. As part of the normalization of relations, China made special efforts to indicate that it had no “hold” on local Chinese in the Philippines and made clear that their loyalty should belong to the Philippines. In return, the Philippines endorsed the One China policy and terminated official relations with the ROC.

Economic cooperation was also an important element in the improvement of bilateral relations. The Philippines was especially interested in importing petroleum products at “friendship prices” while China primarily imported forestry and agricultural products along with limited amounts of basic materials. Meanwhile, despite the termination of diplomatic relations, the Philippines’ economic ties with Taiwan and popular perceptions that China continued to support local communist insurgents remained strong.

In the late 1980s and early 1990s, partly in reaction to the consistent trade imbalance with China, the Philippines reevaluated relations with Taiwan. While officially maintaining the One China policy, there was a significant increase in unofficial travel by government officials from Taiwan and the Philippines and clear indications that the Philippines Senate was reevaluating the One China policy in favor of a Two China policy or at least more favorable treatment of Taiwanese investors. China responded with aggressive demands for a reaffirmation of the One China policy, and the Philippines complied after several disappointments with the anticipated economic benefits of improved relations with Taiwan. However, economic ties between Taiwan and the Philippines have remained strong, and China remains concerned about new attempts by Taiwan to use these ties to gain diplomatic standing in Manila.

The sensitivity of the One China policy is unlikely to go away any time soon. First, there is the potential for further confrontations over attempts by Taiwan to create international space for itself given the Philippines’ eagerness for economic growth. Second, there remains an influential group within the Philippines’ political elite, especially in the Senate, that is committed to establishing ties with Taiwan for a combination of ideological or personal economic reasons. Third, as the Philippines seeks to strengthen its alliance with the United States, there is the potential for it to be drawn into any Sino-U.S. conflict over the defense of Taiwan, which would lead to fresh demands from China to reaffirm the One China policy.

SOUTH CHINA SEA TERRITORIAL DISPUTE

A much more significant issue that represents a major turning point in bilateral relations emerged in the early 1990s over the South China Sea that separates the two countries. Following a major confrontation over the occupation of Mischief Reef in the Spratly Island group in 1995, the PRC was portrayed in the Philippines as aggressively taking advantage of its growing military power to control the resource-rich region.

Modern day sovereignty claims by China, Vietnam, Malaysia, Indonesia, and the Philippines in the South China Sea date back to the 1950s and are based on claims of historical occupation and varying interpretations of international law. Over the years the various claimants occupied islands or reefs in the region and engaged in minor naval clashes, usually involving the forcible removal of fishing vessels from claimed territorial waters. While China and Vietnam had serious military clashes in 1974 and again in 1988 over occupations in the Paracel Island group, the Philippines and China—with conflicting claims specifically over the Spratly Island group—had essentially agreed to defer sovereignty claims and settle the dispute through dialogue.

There were several indications that this acceptance of the somewhat ambiguous status quo in the region was gradually changing by the early 1990s. First, in 1992 there was the

passage by China's National Congress of a new law that reiterated China's sovereignty claims over all the islands in the South China Sea including the Spratlys. Second, as part of its naval modernization program, China had increased its activity in the region. Third, there was an increase in activity by all the claimants including the initial Chinese occupation of Mischief Reef and oil exploration contracts by both the Philippines and China in regions of contested sovereignty. Despite these early warning signs, both sides continue to call for friendly resolution based on their history of amicable relations.

The friendly tone came to an end in early 1995 when the Philippines announced the discovery of a substantially increased Chinese presence on and around Mischief Reef. The announcement had a dramatic impact in the Philippines. Coming at the nadir of U.S.-Philippine relations following the withdrawal of U.S. military forces in 1992, the Philippine navy's inability to respond to the Chinese activity was starkly obvious. Arguing that the Chinese were taking advantage of the power vacuum that had been created in the region, the Philippine defense establishment responded by pushing the Congress to approve a military modernization plan. It also began working to revitalize the U.S.-Philippine alliance by negotiating a Visiting Forces Agreement (VFA) and by requesting military assistance to supplement the local modernization program.

While the local military development plan quickly ran into funding difficulties in the context of the 1997 Asian financial crisis, the efforts to reengage the United States were much more successful. As a first step, the VFA was signed in 1998 and ratified by the Philippine Senate in 1999. Filipinos cast the VFA as a direct response to the "China threat" as indicated by Senator Blas Ople's comments during the Senate debate, when he argued that "the one factor that restrains China's hawks is the realization that the Philippines is bound to the United States by a Mutual Defense Treaty." Within six months, two U.S. aircraft carrier battle groups had transited the South China Sea and within a year a joint U.S.-Philippine exercise had been conducted off the coast of Palawan, near the Spratly Island group.

Since the signing of the VFA there have been a series of joint U.S.-Philippine exercises. Although most of the attention has focused on the Mindanao conflict and anti-terrorism training since 2001, the 2004 locations for Balikatan, the joint U.S.-Philippine exercise, included Palawan as well as Batanes, the island group located midway between Luzon and Taiwan. While American officials dismissed the choice of locations as being based on the perceived need for "civic action" projects in these regions, Philippine officials stressed the strategic significance of the locations by suggesting that it was important to have these areas "participate in interoperability and command post exercises."

There was less immediate commitment by the United States on providing support for the military modernization program, reflecting a U.S. concern with the appearance that the revitalized military alliance was tied to the Spratly issue. However, with the Philippines quickly declaring and demonstrating full support for the U.S. Global War on Terrorism after September 2001, the United States had responded through a variety of ways such as identifying the Philippines as a major non-NATO ally and according President Macapagal-Arroyo increasing military assistance from \$1.9 million in 2001 to \$400 million in 2004. Again, Philippine officials have consistently highlighted the importance of the reinvigorated military alliance and the potential role the alliance might play in the external defense of the Philippines.

The diplomatic response by the Philippines to China's Mischief Reef occupation was to confront Beijing directly through bilateral talks while also trying to internationalize the

issue. Within a month of the “discovery,” bilateral talks were held in Beijing followed by a second round in Manila in August 1995. Agreement was reached that the two sides would work to resolve the matter in a friendly manner, pursue confidence-building measures while refraining from using force, and settle the dispute in accordance with the principles of international law.

Using the joint statement issued at the conclusion of the talks in August 1995 as a basis, the Philippines foreign ministry took two separate tracks. As part of the agreement to pursue confidence-building measures, the number of bilateral interactions increased significantly, highlighted by official state visits to China by President Estrada in 2000 and President Macapagal-Arroyo in 2001. China’s Defense Minister Chi Haotian and Premier Li Peng made separate visits to Manila in 2002. Meanwhile, the Philippines also worked to further internationalize the Spratlys issue by taking it up at the United Nations (UN), the ASEAN Regional Forum (ARF), and with its partners in ASEAN. Although efforts at the UN and the ARF were effectively blocked by China, the Philippines gained support within ASEAN for the principles outlined in the 1995 joint statement. The two sides eventually came to sign a declaration of conduct on the South China Sea at the eighth ASEAN annual summit in 2002, with the provision to continue working toward a legally binding code of conduct.

In terms of Sino-Philippine bilateral relations, the conflict initially highlighted the Philippines vulnerability to China’s assertiveness in the region. However, by engaging in direct dialogue with China while using its defense relationship with the United States as a security buffer and its status as a member of ASEAN as a diplomatic buffer, the Philippines has been able to maintain its position as a legitimate claimant in the region without engaging in a military confrontation.

SINO-ASEAN STRATEGIC PARTNERSHIP AND SINO-PHILIPPINE RELATIONS

Much of the cooperation that has occurred within the Sino-Philippine relationship must be understood in the broader perspective of Sino-ASEAN relations. With the signing of the “Joint Declaration of the PRC and ASEAN State Leaders—A Strategic Partnership for Peace and Prosperity” in October 2003, China and ASEAN announced what was described as the realization of a process begun in 1997 whereby the two sides would become “important partners of cooperation.” Citing specific achievements such as the framework agreement for a Sino-ASEAN Free Trade Area, the Declaration on the Conduct of Parties in the South China Sea, and China’s accession to the Treaty of Amity and Cooperation (TAC), the Joint Declaration outlines ways the partnership “is an all-around and forward-looking relationship with emphasis on cooperation in politics, economy, social affairs, security, and international and regional affairs.”

It is certainly true that the Philippines has materially benefited from China’s commitment to cooperation. According to the Philippine Department of Trade and Industry, trade with China has increased dramatically over the past decade to nearly \$4 billion in 2003. China is today the Philippines’ fifth largest trading partner. Beyond trade there has also been a noticeable increase in other forms of cooperation. Since the signing of a joint bilateral cooperation agreement in May 2000, there have been new cooperative agreements reached in several areas including air services, tourism, finance, investments,

cultural exchange, law enforcement, agriculture, and infrastructure development. For example, a recent agreement on a \$400 million railway project that would reestablish the rail line between Manila and central Luzon was characterized by Philippine Socioeconomic Planning Secretary Romulo Neri as a “concession to the Philippines and as a sign of goodwill.” It is ironic that the project will reconnect the link between Manila and Clark Air Base that became unserviceable in the 1980s. Elsewhere, the two sides recently announced the successful conclusion of a ten-month coordinated effort to break up a large transnational drug ring that had been operating between the Philippines and Fujian province. With positive news coverage of the event, both sides highlighted the success of the operation.

However, as in other ASEAN member states, there remains a great deal of skepticism in the Philippines regarding the long-term prospects of China’s willingness or ability to continue this “charm offensive.” Though formal declarations are in place, there are still some obstacles to Sino-Philippine bilateral relations. For example, the Philippines has a problem with the terms of the proposed free-trade agreement with China stemming largely from the lack of complementarities between the two economies. The immediate problem is in the Early Harvest program, which China introduced as a means to speed up the process of establishing its Free Trade Area with ASEAN. In 2003, after two years of difficult negotiations, the Philippines became the first ASEAN member to withdraw from the program over disagreement on what products should be included.

Many in the Philippines also remain skeptical concerning cooperation in the South China Sea. Now that China has committed itself to maintaining the status quo and to resolving territorial disputes through peaceful means, there is an expectation that it will take a more multilateral approach to resolving territorial disputes in the region. Yet, even while offers of joint oil exploration are being made by China, the Philippine military continues to report that the Chinese navy remains active around unoccupied reefs and shoals. As a result, the Philippines has refused to move ahead with the joint exploration proposals without the consent of other ASEAN members.

The eventual outcome of the Sino-ASEAN strategic partnership is difficult to predict. The optimists prefer to see the prospects for greater integration of interests and the eventual realization of not only a free-trade area but also a region with shared security interests that promote greater confidence in China’s ability to serve as a further catalyst of economic growth. The less optimistic tend to see the rise of China as a primary cause for further disintegration within ASEAN as individual countries compete for the advantages associated with stronger ties to China while ignoring the interests of fellow ASEAN members or of ASEAN as a whole. Another possible outcome is new competition for China for influence in the region as both Japan and India have shown interest in establishing free-trade zones with ASEAN members. The more pessimistic observers see the outcome in terms of Chinese attempts to establish both the economic and security agendas in the region and the inevitable confrontation with the United States and/or Japan for control. In the context of these uncertainties, the Sino-Philippine relationship is an important test case of how two countries, disparate in size and capabilities, reflect efforts between Southeast Asian countries and China to fashion relations in the post-1995 era of Beijing’s “charm offensive” in the region.

CONCLUSION

Sino-Philippine bilateral relations have moved from being a by-product of Sino-U.S. relations during the Cold War to becoming an integral part of the regional security environment. Although China's demand for strict adherence to its One China policy remains an important issue, the Philippines recently showed great deference by canceling and then denying any knowledge of an official visit by Taiwan's vice president and the foreign, economics, and overseas ministers in response to China's protestations. Nevertheless, given the Philippines' important economic relationship with Taiwan and its revitalized security relationship with the United States, any conflict between China and Taiwan would likely create serious tensions in Sino-Philippine relations.

The two touchstone issues that largely determine the scope of the Sino-Philippine relationship are the territorial claims in the South China Sea and the Chinese effort to establish a strategic partnership for peace and security in Southeast Asia. Historically, China has sought to keep these issues separate based on the assumption that the South China Sea issue is about territorial integrity, while the strategic partnership with Southeast Asia is about establishing a friendly environment to support and enhance economic development in the region. The Philippines, on the other hand, has worked to link the two because it binds Chinese desire to sustain rapid economic integration within the region to an internationally mediated solution to the South China Sea territorial dispute.

From the Philippine perspective, the Spratly dispute has become the defining feature of the bilateral relationship. Engagement in what former Philippine Defense Secretary Mercado termed "creeping invasion" provides evidence that China intends to use its growing military capabilities to eventually reassert its sovereignty claims in the region. By reinvigorating a U.S. alliance to establish at least the possibility of support for external defense and working through ASEAN to establish an intermediary for dispute resolution for security matters, the Philippines has created a buffer to avoid direct military confrontation that it views as untenable.

From the Chinese perspective, the shift in the bilateral relationship since the Mischief Reef incident reflects China's changing approach to security. Initial demands to deal with the issue on a strictly bilateral basis in the mid-1990s, which were consistent with the long-standing Chinese argument that the South China Sea represented lost territory, have given way to renewed calls for joint development and an increased willingness to work within ASEAN-led institutions and frameworks. While there has been much debate as to the reasons why, the fact is that China has shifted to a greater willingness to consider multilateral approaches, a shift that is consistent with the effort by Beijing to present itself as a nonthreatening, responsible actor in Southeast Asia. For the Chinese, the motivation ends there.

As U.S. interest in Southeast Asia, and especially the Philippines, grew following September 2001, Sino-Philippine relations have taken on more strategic importance. This engagement has given the Philippines both more confidence in its dealings with China on the South China Sea issue along with renewed vulnerability to Sino-U.S. relations over the Taiwan issue.

Therefore, Sino-Philippine relations must be folded into the larger context of relations within the region. With the Philippines attempting to create a security buffer through its relationship with the United States and as a member of ASEAN while China attempts to present itself as a nonhostile leader in the development of a regional economic and security community in Southeast Asia, both sides' interests are presently served by encouraging cooperative solutions. However, by embedding the relationship in the larger community, there is also the increased likelihood of unintended consequences that result from the involvement of that larger community.

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SPECIAL ASSESSMENT

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Asia's Bilateral Relations

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India-Iran Relations: A Deepening Entente

D O N A L D L . B E R L I N

Executive Summary

- Iran, with its Islamic government, seems a strange ally of India, a democracy until recently dominated by a Hindu nationalist party. But the two nations have overcome past antagonisms and developed close ties that will affect not just Southwest Asia but also the United States.
- Iran sees India as a strong partner that will help Tehran avoid strategic isolation. For India, the relationship is part of an effort to pursue Indian interests pragmatically with all significant states and especially with those nearby. This effort will continue notwithstanding the recent advent of a Congress Party-dominated government in India.
- Deepening ties are reflected in the recent growth of bilateral trade that will now increase further following an agreement that Tehran will supply India with 5 million tons of liquefied gas annually for twenty-five years. The two states also are cooperating on the North-South Transportation Corridor, a project to link Mumbai—via Bandar Abbas—with Europe. They also are discussing a possible gas pipeline from Iran via Pakistan to India.
- Security relations were advanced significantly after last year's state visit by Iranian President Khatami, when he was the guest of honor at India's National Day. The parties forged an accord that gives Iran access to Indian military technology. Reportedly, it also gives India access to Iranian military bases in the event of war with Pakistan. Other recent developments include the first Indo-Iranian combined naval exercise and an Indian effort to upgrade the Iranian port of Chahbahar, a move that could foreshadow its use by the Indian navy.
- The new Indo-Iranian entente could powerfully influence such important matters as the flow of energy resources, efforts to stem the proliferation of weapons of mass destruction, and political developments in Afghanistan, Central Asia, and the Persian Gulf. The consequences will not always suit U.S. interests.

BACKGROUND

Ties between India and Iran date to the Persian Empire of Cyrus the Great. The nations have long influenced each other in the fields of culture, art, architecture, and language, especially during the 1526-1757 period, when the Mughals ruled India. India and Iran also shared a border until 1947.

Notwithstanding these connections, Iran's alignment with the West during much of the Cold War and India's nonalignment policy prevented the two countries from closely interacting. During India's wars with Pakistan, Iran helped the latter with military hardware. After Iran's Islamic revolution, New Delhi's dissatisfaction centered on Iranian support for Kashmiri aspirations and Tehran's efforts to spread its Islamic revolution.

This era, however, has been followed by a significant improvement in ties in more recent years. This process has been abetted by a deterioration in Pakistan-Iran relations following the Iranian Revolution and increased hostility by Tehran toward Sunni-dominated Pakistan. Incidents such as the May 2004 bomb attack on worshippers at a Shiite mosque in Karachi obviously still anger Tehran. Iran also was perturbed by Islamabad's role in creating the Taliban and in helping it to take control of Afghanistan. From Tehran's perspective, Pakistan's motives in creating the Taliban included a desire to eliminate Iranian influence from Afghanistan, prevent the expansion of Iran's presence in Central Asia, and block a southern export route through Iran for Central Asian energy.

Building in part on Iran's problems with Pakistan and on Islamabad's failure to play a proactive regional role, Indo-Iranian relations were first boosted by the visit to Iran of Indian Prime Minister Rao in 1993, the first Indian prime minister to visit since the Islamic Revolution in 1979. This was followed by a reciprocal visit by Iranian President Rafsanjani in 1995, and by a tripartite agreement among India, Iran and Russia to establish a North-South Transportation Corridor linking India through Iran to Russia and then on to Europe. However, the most important milestones for Indo-Iranian relations came when Indian Prime Minister Vajpayee visited Tehran in 2001, followed by the reciprocal visit of Iranian President Khatami to New Delhi in 2003 when he was the guest of honor at India's Republic Day celebrations, an honor reserved for the closest friends of India.

MOTIVES

Both parties have strong motives for courting the other. Iran sees India as a strong partner that will help Tehran to avoid strategic isolation, particular at a moment when Tehran has been designated a member of the "Axis of Evil." Tehran also sees India as helping it to break out of the anti-Iran pincer allegedly created by the United States in the region, and as an ally against Arab nationalism and extremist Wahhabite Islam. Finally, the move toward India also reflects the broad Iranian foreign policy trend toward an emphasis on the "national interest" versus Islamic ideology, a shift that became more pronounced in the late 1990s.

For India, the establishment of a strong relationship with Iran is part of a wider effort to pursue Indian interests pragmatically and patiently with all significant states and especially with those in India's neighborhood. It has been part of a broad effort in recent years to transform Indian foreign policy, jettison New Delhi's traditional emphasis on idealism, and pursue concrete Indian interests with a sense of purpose. In September 2003, Indian Foreign Secretary Kanwal Sibal underscored the significance of the India-Iran connection

when he emphasized that “there should be no doubt of the strategic importance New Delhi attaches to the relationship.” In fact, as Pakistan and Iran have been edging toward a better relationship than they have enjoyed for some years, the consolidation of the new India-Iran relationship over the past two years is an impressive Indian diplomatic achievement.

New Delhi also regards the Iranian connection as serving a variety of tangible and specific Indian interests. Perhaps most important, the nexus with Iran is seen as helping India with its energy needs. As the fourth largest economy (in terms of Purchasing Power Parity) in the world, and one almost 70 percent dependent on foreign oil for its needs, India’s oil and energy needs are significant and growing. Moreover, Iran will remain India’s preferred choice for the transit for natural gas from Central Asia, until such time as the developments in Pakistan and Afghanistan stabilize.

A second factor for India, obviously, is the utility of the relationship in terms of India’s rivalry with Pakistan. In this respect, the Iran nexus is seen as facilitating Indian efforts to contain and encircle Islamabad, an opportunity seen as deriving in part from Pakistan’s weakened posture in Afghanistan. At the same time, the Indo-Iranian relationship sends a message to Washington that U.S. ties with Pakistan entail costs and one of them is a strengthened Indo-Iranian nexus.

A third consideration for India is the value of the Iran relationship in the context of India’s long-term program to deepen and widen its influence in the Indian Ocean region. In the expansive view of many Indians, this security perimeter should extend from the Strait of Hormuz to the Strait of Malacca and from the coast of Africa to the western shores of Australia. Iran obviously is part of this geography.

Fourthly, India sees its ties with Iran as facilitating its pursuit of Indian national interests in Afghanistan and, more broadly, in Central Asia and the Caspian Basin. In Afghanistan, New Delhi and Tehran both opposed the Sunni-dominated Taliban regime and have a strong interest in the success of efforts to stabilize post-Taliban Afghanistan and ensure its success. In Central Asia, ties with Iran will be helpful in gaining India access to markets, energy, and potential client states. India, unlike Iran, has no direct land access to Central Asia and the Caspian Basin.

Last but not least, the Iran relationship is helpful in illustrating India’s willingness to live amicably with the Muslim world. It also underscores the reality that India is itself an Islamic nation, both because India hosts the second largest Islamic population in the world and because its national culture has been deeply influenced by Islam. This is so notwithstanding the fact that the link with Iran is embarrassing to many of India’s Hindu nationalist politicians.

ISSUES

Relations between India and Iran have been deepening with respect to most issues, especially security, energy, and the North-South Transportation Corridor.

Security relations appear to have been initiated in 2001 when Indian Prime Minister Vajpayee visited Iran and he and President Khatami issued a joint declaration in which they agreed to cooperate in maintaining peace and stability in the region.

This was followed by the visit to India of Iranian President Khatami in January 2003 at which time the two nations signed a number of agreements including a “Memorandum of Understanding on the Road Map to Strategic Cooperation.” The memo states that India and Iran will explore opportunities for cooperation in defense in agreed areas, including

training and exchange of visits. It also states that India-Iran defense cooperation is not aimed against any third country.

A variety of secondary sources have reported in more detail on the foregoing agreement, although it is not clear if this information is authoritative. Reportedly, India promised to upgrade Iran's fleet of Russian-supplied Kilo-class submarines and its MiG fighters. Iran also will be accorded access to other Indian military technology. Some sources also have reported that the agreement accords India access to Iranian military bases in the event of war with Pakistan, a particularly significant development if true. In March 2003, India and Iran conducted their first combined naval exercise. This exercise also was notable because it probably reflected Indo-Iranian discomfort with the mounting U.S. presence in the Persian Gulf and Arabian Sea at that juncture.

Indian engineers also are working to upgrade and develop the Iranian port of Chabahar. This initiative presumably is mainly intended to facilitate trade and is part of a larger Indian Ocean to North Sea initiative involving Russia and others, and mainly centered on the Iranian port of Bandar Abbas. Pakistani and Chinese observers, however, will worry that Tehran eventually will permit Indian naval forces to use the port and will regard developments at Chabahar as a response to China's own development of a Pakistani port and naval base at Gwadar, some one hundred miles eastward.

Close Indo-Iranian security ties may also be inferred from the reported presence of an unusually large Indian consulate, with presumed intelligence duties, on the Pakistan border (and also near the Afghan frontier) at Zahedan in Iran. India also established a new consulate at Bandar Abbas in 2002, a development that provoked Pakistan to protest that India will use this facility to monitor ship movements in the Persian Gulf and the Strait of Hormuz.

In the economic arena, the principal issues have been trade and energy, and the North-South Transportation Corridor. Indo-Iranian trade has been growing steadily with bilateral trade reaching around \$2.8 billion in Financial Year 2002-3. Though the import of Iranian crude oil worth \$1.4 billion retains its preeminent position in bilateral trade volume, Indian exports have grown to \$655 million of nonpetroleum products. New Delhi, however, believes it could be selling much more to Iran and that Iran needs to look to India, not the West henceforth, for its industrial imports. According to External Affairs Minister Sinha, "Iranian business and industry must look to its east, to India, in areas where Iran has traditionally depended on the West for technology, equipment, machinery, and industrial projects. The Iranian manufacturing sector should take note of the progress made by Indian industry in the manufacturing sector."

In December 2003, India proposed to Iran that the two states expand bilateral economic cooperation by forming a common market of India, Iran, and Pakistan. Iran's ambassador to India responded by assenting to the concept and commented, "We hope for an economic bloc of India, Pakistan, Afghanistan, Iran, and maybe Central Asia." According to the Iranian diplomat, "There is currently a gap between the ASEAN and the EU. As the only two democracies in the region, India and Iran can start a partnership to fill this gap."

Energy, of course, will remain the key commodity in the India-Iran economic relationship. For India, the energy relationship is vital in that energy security is seen as absolutely essential if India is to achieve great power status. According to the New Delhi Declaration, "Iran with its abundant energy resources and India with its growing energy needs as a rapidly developing economy are natural partners." To this end, in May 2003, Iran and India agreed that Tehran will supply India with 5 million tons of liquefied gas annually for twenty-five years and with 100,000 oil barrels per day for a trial period of a year. The agreement also provides for "exchange of experience in the field of com-

pressed natural gas production and reconstruction of refineries.” The former will allow Iran to speed up its replacement of oil with natural gas for domestic purposes, conserving Iranian oil reserves and reducing air pollution. As for the latter, India will help Iran upgrade its oil refineries, which Iran can only do partially on its own. Finally, the pact opens up other new opportunities for Indian companies to invest in Iranian energy. Taken together, these agreements could potentially turn India into a major energy player.

In addition to the foregoing, Tehran and New Delhi apparently are continuing to discuss construction of a natural gas pipeline from Iran via Pakistan (or via the Persian Gulf and Arabian Sea) to India. Such a project, however, faces a variety of obstacles, including New Delhi’s growing emphasis on shipborne liquid natural gas (LNG) imports (India began manufacturing LNG-carrying ships in 2002) and recent natural gas discoveries in India. It remains to be seen if the recent positive trend in Indo-Pakistan relations boosts interest in this project.

Another arena of Indo-Iranian cooperation is the North-South Transportation Corridor. The North-South corridor project, the result of an agreement among India, Iran, and Russia in 2000 (with Belarus and Kazakhstan joining later), is intended to link Mumbai—via Bandar Abbas in Iran—with St. Petersburg and thus the Indian Ocean with the Baltic Sea and Europe. The aim is to build the necessary roads and railroads, and to develop the required ports along the way in conjunction with streamlined customs and other procedures to make this route economical and efficient. Reportedly, the route—which will form part of the larger Asian Highway system of land and sea connections—will shorten cargo transit distance from the Indian Ocean and Persian Gulf regions to Northern and Eastern Europe by two thirds, as compared to the Suez Canal. Trade among the participating nations would increase substantially as would the level of interaction between Asia and Europe. The sea/land route began its official operation in early 2003 when a Russian freighter discharged its load at Iran’s Caspian Sea port of Anzali. A completed Transportation Corridor, however, will require the investment of large sums and years of sustained effort.

In this connection, India, Iran, and Afghanistan, meeting in Tehran in January 2003, signed a memo on the “Development and Construction of the Transit and Transport Infrastructure” with the intent of improving the route from Chabahar, Iran to the Afghan cities of Zaranj and Delaram. To this end, India has committed \$70 million for the construction of a road linking Zaranj and Delaram. Work on the project, for which the Indian armed forces will provide security, will begin in August. In addition, an Indian consortium has been engaged by the Iranian Ports and Shipping Company to undertake development work at the Chabahar port and on the Chabahar-Fahraj-Bam railway link.

Iran’s attractiveness as a route into Central Asia has been enhanced by virtue of Iranian investments in the 1990s in the Iranian rail network and in its expansion to the borders of Central Asia. A major step was the inauguration in 1995 of a 703 kilometer railroad connecting Bafg in central Iran to the port city of Bandar Abbas on the Persian Gulf. The presidents of Turkmenistan, Kyrgyzstan, Armenia, and Afghanistan and senior representatives of other neighboring countries attended the opening ceremony. The following year, Iranian President Rafsanjani inaugurated the Mashad-Sarakhs-Tredzen railroad in the presence of eleven heads of state, including Turkish President Suleyman Demirel. Iran already is connected by rail to Azerbaijan. The beginning of a weekly train service from Almaty in Kazakhstan to Tehran in March 2002, part of an agreement to revive the Silk Road in the framework of the Economic Cooperation Organization, marked another important step in this direction.

THE U.S. AND ISRAELI FACTORS

The increasingly close ties that have been developing between New Delhi and both Washington and Tel Aviv complicate the Indo-Iranian relationship. Obviously, New Delhi will need to walk a tightrope to maintain close relations with the United States, Israel, and Iran simultaneously.

The Indian External Affairs Ministry, for example, recently commented: "The United States has its relationship with Pakistan, which is separate from our own relationship with them. Our relationship with Iran is peaceful and largely economic. We do not expect that it would affect our continuing good relations with the United States."

India, of course, is well aware that its close ties with Iran will affect its relations with Washington. Indo-Iranian views on the future of Afghanistan or on the proliferation of weapons of mass destruction almost certainly will diverge from the U.S. perspective. Both India and Iran, for example, are interested in advanced space launch capabilities.

Most recently, the Indo-Iranian relationship likely factored in New Delhi's interpretation of nuclear developments in Iran. In contrast to the U.S. interpretation of the evidence, the Indian Foreign Secretary stated in September 2003 that India sees "no evidence of Iran ... pursuing a nuclear weapons program or any other mischief-making."

Similarly, the Indo-Iranian relationship will be one of the reasons—and there are others—why India will resist the U.S. Proliferation Security Initiative (PSI). As one Indian security analyst commented: "Incongruously, the most likely target for India as part of PSI would be the nation New Delhi needs to countervail Pakistan but with which the Bush team is in an ideological war—Iran. It would be bizarre if India participated in an enterprise that shielded the exporter of uranium centrifuges and weapon designs, Pakistan, but targeted an importer of some Pakistani centrifuges, Iran...."

India also has close and strengthening relations with Israel and is facilitating Israeli efforts to enlarge its strategic footprint in the Indian Ocean. In addition, large numbers of senior Israeli and Indian officials have exchanged visits, and military relations have become so close that many observers see the connection as practically tantamount to a military alliance. Iran obviously will not be pleased with this state of affairs, as Israel clearly will be worried by the Indo-Iranian relationship. New Delhi, however, apparently believes it can maintain close relations with both parties. During his September 2003 Indian visit, Israeli Prime Minister Sharon did raise the issue of India-Iran relations, including the potential leakage of military technology, with Indian leaders. Sharon, however, told the press that "we got answers to the questions raised and we are satisfied with the answers." Iran, for its part, has been extremely accommodative and understanding of India's links with Israel.

CONCLUSION

While its long-range prospects are uncertain, the Indo-Iranian relationship probably will deepen in the immediate future, based on the current dominance of pragmatism in policy circles in both countries and on the range of interests that the relationship serves. This probably will occur notwithstanding the recent advent of a Congress Party-dominated government in India.

Obviously, the consequences of the Indo-Iranian relationship will not always suit U.S. interests. This would be much less so were the United States and Iran to effect a rapprochement. In any case, India will proceed carefully because its relationship with the United States, like those with Iran and Israel, is seen as enhancing and magnifying Indian power and as promoting India's agenda in Southwest Asia. For New Delhi, thus, the best scenario is one that allows it to strengthen its ties with **all** of these states. Some Indians probably also hope that New Delhi will be able to act as an interlocutor and play a role in promoting a rapprochement between the United States and Iran.

The development of close Indo-Iranian relations has the potential to become a key factor in the strategic environment in Southwest Asia and the Arabian Sea. If the relationship lasts, it will enhance the regional influence of India and Iran. This will be troubling for Pakistan and perhaps for Saudi Arabia.

The larger consequences of the Indo-Iranian relationship for peace and security in Southwest Asia are difficult to gauge. However, as these nations are among the most significant and dynamic states in the region, positive bilateral relations augur well for a variety of multilateral initiatives in the region and, independent of other factors, probably also for peace and stability in this part of Asia.



SPECIAL ASSESSMENT

OCTOBER 2004

Asia's Bilateral Relations

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Japan-Taiwan Relations: A Case of Tempered Optimism

DAVID FOUSE

Executive Summary

- Japan-Taiwan relations have grown close over the past fifteen years due to the end of the Cold War, the emergence of Chinese economic and military power, cultural and political changes in Taiwan and the rise of a new generation of politicians in Japan.
- The Chen Shui-bian administration has attempted to capitalize on this trend by enhancing political, economic, and security ties with Japan. Japan has taken small steps to increase political contacts and security dialogue, but remains cool to a Free Trade Area (FTA) proposal by Taiwan.
- Despite signs of strengthening ties with Taiwan, Japan's formal One China policy remains unchanged. Japan is wary of Taiwan moving toward independence and remains sensitive to Chinese criticism of its involvement with Taiwan. A territorial dispute over the Senkaku/Diaoyutai islands that Japan shares with both Taiwan and the People's Republic of China (PRC) also inclines Japan to favor the status quo.
- Improved Japan-Taiwan ties will benefit United States security planning under the Taiwan Relations Act, as trilateral coordination among the three countries will be essential in the case of a contingency in the area. Japan has taken a somewhat more proactive approach to its relationship with Taiwan in recent years, but this has occurred primarily within the context of improving policy coordination with the United States.

INTRODUCTION

Although formal diplomatic ties between Japan and the Republic of China (ROC) were severed in 1972 after Japan normalized relations with the PRC, the relationship remains of importance for the political, economic and strategic stability of Northeast Asia. The overall trend in relations between Japan and Taiwan over the past several years has been toward strengthening existing political and economic ties. Under President Chen Shui-bian, Taiwan has also attempted to move the relationship from its traditional grounding in historical and cultural ties toward one based upon the shared political values of the two countries. This new policy was most vividly reflected in a September 9, 2002 speech in which President Chen urged Japan to support his proposal to form an “Asia-Pacific Democracy Alliance” to better defend the universal values of freedom, democracy, and human rights.

For its part, Japan has taken steps to upgrade the level of political contacts with Taiwan, supported Taiwan’s observer status in organizations that do not require statehood, and has engaged in track two level trilateral security dialogue between Japan, the United States, and Taiwan. Japan, however, remains unwilling to let its desire to enhance ties with Taiwan jeopardize its relationship with the PRC. This ceiling on the Japan-Taiwan relationship was most recently demonstrated when the Koizumi government refused to support Chen Shui-bian’s “defensive referendum,” which in turn provoked strident criticism of Japan from Taiwan’s independence advocates.

Japan sees its own national interests best served by preserving the status quo in the cross-Strait standoff. Japan does not wish to see Taiwan declare independence, which could draw Japan into a major power war via its alliance with the United States. An independent Taiwan might also make stronger sovereignty claims on neighboring islands that Japan sees as its own. On the other hand, Japan does not wish to see Taiwan absorbed into the PRC, which could give China dominion over vital shipping lanes and the South China Sea. This second scenario could enhance China’s influence over Southeast Asia at the expense of Japan’s relations in the region. Japan will therefore continue to uphold its One China policy while seeking to upgrade security coordination with the United States and Taiwan.

BACKGROUND TO IMPROVED JAPAN-TAIWAN RELATIONS

The End of the Cold War

Prior to the end of the Cold War, Taiwan’s ability to pursue greater diplomatic recognition in the international community had been largely stymied by the demands of the strategic triad between the United States, the PRC, and the former Soviet Union. However, as Michael Swaine and James Mulvenon have argued, a combination of two trends, one domestic and the other international, spurred Taiwan’s move toward “pragmatic diplomacy” under President Lee Teng-hui during the 1990s. On the domestic side, Taiwan’s move to democratize its political system together with its impressive economic success provided a new profile from which to promote better relations with countries like the United States and Japan. Taiwan’s democratization contrasted starkly with images of the Tiananmen Square massacre, Beijing’s answer to the changes that were sweeping through the communist world in 1989. The breakup of the Soviet bloc lessened China’s

strategic value for the United States and afforded Taiwan new room to maneuver on the international scene. Lee Teng-hui exploited this new diplomatic space to strengthen relations with both the United States and Japan in the early 1990s.

Lee's administration scored its first major success when the administration of George H.W. Bush agreed to sell Taiwan 150 F-16 fighter planes in 1992. This sale came despite Chinese objections that the sale violated the 1982 U.S.-China Joint Communiqué, which states that the United States would gradually reduce its arms sales to Taiwan. In the same year Japan began to allow its economic officials to meet with their counterparts from Taiwan and permitted Taiwan to change the name of its representative office from the Council of East Asian Relations (CEAR) to the more distinctive Taipei Economic and Cultural Representative Office in Japan (TECRO). A similar name change occurred in Taiwan's representative office in Washington following a U.S. policy review in 1994. This review was spurred by controversy surrounding President Lee's proposed transit through Hawaii on a trip to Central America. Under the policy review, future "transits" were to be permitted, although explicitly differentiated from official visits. The new policy allowed U.S. officials outside of the State Department and Executive Office of the President to meet with their counterparts from Taiwan. The Clinton administration also declared its intention to support Taiwan's participation in international organizations that did not require statehood for membership (excluding the United Nations [UN]).

The year 1994 also saw Japan's first major controversy over Taiwan when China objected to President Lee attending the Asian Games held in Hiroshima. The Japanese government eventually bowed to pressure from Beijing and forced the games organizer to retract the invitation to Lee. However, when Vice-Premier Hsu Li-te was invited in his capacity as chairman of the Taipei Olympic committee, Japan did not yield to Chinese pressure. Beijing strongly protested Tokyo's decision on the grounds that the expansion of Taiwan's political space through diplomacy of this sort was a step toward independence. Nevertheless Tokyo remained firm in its stance. That year, eleven members of a pro-Taiwan parliamentary group from Japan visited Taipei during its celebration of the 1911 founding of the Chinese republic. A year later the Clinton administration, under pressure from Congress, issued a visa for President Lee to visit his alma mater, Cornell University. This, however, turned out to be the straw that broke the camel's back, as it unleashed a firestorm in Beijing that culminated in the 1995-96 cross-Straits crisis.

Lee Teng-hui's Japan Diplomacy

The cross-Straits crisis marked a low point in Japanese public sentiment toward China. Reports of China test firing M-9 missiles in the direction of Taiwan in order to discourage the election of a pro-independence candidate alarmed many Japanese about Chinese intentions in the region. After taking his position as Taiwan's first elected president in 1996, Lee Teng-hui was poised especially well to take advantage of this trend in Sino-Japanese relations. In addition to his appeal to common values of market capitalism and liberal democracy, Lee's presidency represented the ascendancy of a generation of Taiwanese that tend to compare Japanese colonial rule favorably with the corrupt, authoritarian rule of the Kuomintang (KMT) that followed it. Lee studied in Japan at Kyoto Imperial University (now Kyoto University) and later served in the Japanese military during the war. He is fluent in the Japanese language, speaks warmly of Japanese traditional samurai values, and has published several books extolling the Japanese to regain their traditional spiritual base. Under Lee, Taiwan distinguished itself in Japan by

avoiding the historical issues that plagued Sino-Japanese relations. Japanese liberals were drawn to Lee's championing of democracy and human rights, while politicians on the right admired both Lee's tenacity in the face of Chinese pressure as well as his embrace of Japanese culture and colonial rule. Yet what really distinguished Lee was that his success in developing goodwill toward Taiwan extended well beyond the narrow halls of Nagata-cho-Japan's bureaucratic and political center in Tokyo. As Singaporean scholar Lam Peng-Err writes, "Lee mesmerized the Japanese mass media with his charisma, passion, and intense admiration of Japan."

President Lee's charm offensive helped to bolster the ranks of pro-Taiwan parliamentary groups inside the Japanese Diet during the late 1990s. This process coincided with the gradual erosion of Cold War ideological boundaries as a basis for factional membership inside the Diet, which allowed politicians to join pro-Taiwan groups with less fear of recrimination from pro-China forces. The rise of a new generation of Japanese politicians unwilling to countenance Chinese criticisms of Japan on the basis of wartime guilt further contributed to this trend.

Taiwan secured at least two significant diplomatic victories with Japan under Lee. The first was Japan's decision not to explicitly exclude Taiwan from "the areas surrounding Japan" when the revised Guidelines for U.S.-Japan Defense Cooperation were announced in 1997, despite heavy pressure from Beijing for Japan to do so. The second came when Prime Minister Obuchi refused to sign on to the "three nos" policy (no Taiwan independence, no Two Chinas policy and no to Taipei's membership in international bodies based on statehood) adopted by the Clinton administration in 1998. Japan's refusal to adopt the "three nos" policy in a joint declaration during Jiang Zemin's trip to Tokyo in 1998 was in part responsible for a deterioration of Sino-Japanese relations during that period.

Some observers have argued that these diplomatic successes, as well as Lee's ability to secure a visa to travel to Tokyo in 2001 (purportedly for medical treatment) despite vehement Chinese protests, derived from the lavish treatment Taiwan provided high-level Japanese politicians and government officials during his tenure. The recent public exposure of a secret fund inside the Taiwan National Security Bureau created for just this type of purpose lends some credence to this argument, though Taiwan's ongoing democratization will make such efforts less likely to occur in the future.

JAPAN-TAIWAN RELATIONS IN THE KOIZUMI-CHEN ERA

Political Ties

The victory of Chen Shui-bian and the Democratic Progressive Party (DPP) in Taiwan's 2000 presidential election brought about the first change of ruling party in Taiwan's political history. It also brought about a new approach to Taiwan's Japan diplomacy. Unlike former President Lee, Chen Shui-bian does not speak Japanese and does not have many personal connections to Japan. His party represents a younger generation that would like to see the basis of Taiwan-Japan relations move from being based on personal ties and the colonial legacy toward a broader relationship based upon mutual economic, political, and security interests. On September 9, 2002, President Chen enunciated this new approach when he called on Japan to join Taiwan in an Asia-Pacific Democracy Alliance that would strengthen security cooperation and safeguard democratic development in the region. In order to counter the effect of the vast mainland Chinese market, Chen also urged Japan to sign free trade agreements with Taiwan, the United States, and members of the Association of Southeast Asian Nations (ASEAN).

In a speech three days later Prime Minister Junichiro Koizumi told a Council on Foreign Relations audience that his country has an “important role” in creating an environment for Taiwan and China to settle their differences in a peaceful manner. While perhaps not the exact response Taiwan was hoping to hear, Koizumi’s determination to see the cross-Straits issue resolved “in a peaceful manner through dialogue without ever resorting to force” signaled Japan’s intent to remain engaged with Taiwan despite the growing importance of China as an economic and military power in the region.

For those familiar with the political backgrounds of members of Koizumi’s cabinet, this subtle display of support for Taiwan came as little surprise. Koizumi himself springs from the pro-Taiwan Mori faction, and several high-profile members of his cabinet come with established pro-Taiwan records. On the other hand, none of the cabinet members are known to be especially pro-China. Though the Ministry of Foreign Affairs (MOFA) remains split over where to place policy priorities, it has been under increasing pressure during the Koizumi administration to loosen guidelines for official visits between Japanese and Taiwanese officials. In November 2002 MOFA yielded enough to revise guidelines for official visits so that trips to Taiwan by division chief or officials of a higher rank, which had previously been prohibited, will now be considered “on a case-by-case” basis. There has also been growing contact between members of President Chen’s DPP and the opposition Democratic Party (DP) in Japan. The DP has formed its own parliamentary group to foster Japan-Taiwan relations and its former leader Kan Naoto went so far as to voice support for Taiwan’s entrance into the United Nations.

Two high profile events in December 2003 furthered the impression that political ties between Taiwan and Japan are creeping closer. On December 14, a celebration for Japanese Emperor Akihito’s birthday was held at the Taipei Office of the Japanese Interchange Association (Japan’s *de facto* embassy) for the first time in thirty-one years. High ranking Taiwanese government officials, including Presidential Secretary-General Chiou I-jen, Minister of Foreign Affairs Eugene Chien, and KMT Vice Chairman Vincent Siew attended the celebration. Then, on December 25, former Japanese Prime Minister Yoshiro Mori arrived in Taipei for what was characterized as a three-day private visit, despite strong formal protests from the Chinese preceding the trip. Mori is only the second former Japanese prime minister to visit Taiwan, the first being Takeo Fukuda in 1981. Despite Mori’s insistence that his visit carried no political significance, he was able to meet with President Chen, former President Lee, and other political heavyweights in Taiwan during the trip in order to foster his understanding of Taiwan’s policy.

Economic Ties

President Chen’s call for a Taiwan-Japan free trade agreement and a larger free trade area that excludes mainland China can be seen as a rearguard action in the face of Taiwan’s declining economic importance vis-à-vis its own trading partners. Although Japan, along with United States, have supported Taiwan’s participation in Asian Pacific Economic Cooperation (APEC) and the World Trade Organization (WTO) ministerial conference, they are not likely to join Taiwan in a free trade pact. Both countries have strong agricultural lobbies that will make such a link-up very difficult.

The Japanese government’s official response to the idea of a free trade agreement with Taiwan came in October 2002, when the Economic Affairs Bureau of the MOFA published a white paper on “Japan’s FTA Strategy.” In the white paper MOFA kept open the “theoretical and technical” potential of carrying out an FTA, indicating that “Taiwan is a separate customs territory under the WTO Agreement.” From a practical standpoint,

however, the white paper argues that Taiwan's tariff rates are already so low that tariff reductions achieved through an FTA "would not produce major benefits for both sides." The report concluded that, "It would be more appropriate to consider strengthening economic relations in specific relevant areas."

One area where Taiwan has increased in economic importance for Japan is in playing an intermediary role for Japanese investment going into China. Japanese businesses have relied to a great extent on the cultural and linguistic expertise of Taiwanese to gain a foothold in areas such as Kunshan, Suzhou, and neighboring Shanghai. Joint ventures between Japanese and Taiwanese companies investing on the mainland have become increasingly common as both countries race to exploit the growing Chinese market.

Security Ties

Historically, there has been little strategic thinking behind Japan's Taiwan policy. According to Keio University scholar Yoshihide Soeya, Japan's primary concern with the island, dating back to 1956, has been that Taiwan did not become a military outpost for China. Beyond that, Japan has had no broad-range strategic framework for engaging Taiwan. Japan's relations with Taiwan have been largely a byproduct of the requisites of the U.S.-Japan alliance. Soeya also argues that the security of Taiwan was not a primary concern when Japan agreed to revise the U.S.-Japan Guidelines for Defense Cooperation to include "areas surrounding Japan" in 1997. This argument is supported by Fumio Kyuma, director general of Japan's defense agency who in July 1997 stated that there would be no need to prepare for a Taiwan crisis in actual joint planning based on a review of the guidelines.

There are, however, signs that thinking inside Japan is starting to change. As Japanese expert Yoshihisa Amae has observed, the victory of pro-independence candidate Chen Shui-bian in 2000 "sharpened Japan's security concerns over Taiwan since stability (or the status quo) in the Taiwan Strait is now based on a fragile foundation." Japan is beginning to think seriously about its role in a future contingency. Track two level trilateral security dialogue among Taiwan, the United States, and Japan is reported to be making "smooth progress," while a number of Japanese lawmakers have voiced their support for greater security cooperation between Taiwan and Japan on a bilateral basis. In January 2003 retired Major General Yoichi Nagano was posted to the Taipei office of Japan's Interchange Association, the first time Japan had posted a former SDF official to Taipei since it severed diplomatic ties with Taiwan in 1972.

Japan's heightened awareness of security concerns has also motivated Japan's foreign policy experts to attempt to clarify where Japanese national interests in the cross-Strait issue really lay. Hisahiko Okazaki, a former high-ranking MOFA official, has highlighted the possible threat that Chinese annexation of Taiwan might pose to Japan. According to Okazaki, not only could China's annexation of Taiwan compromise the vital sea lanes through which Japan imports most of its oil from the Middle East, it could also provide China with extreme leverage over the other nations of Southeast Asia, which could in turn have a severe impact upon Japan's economic interests in the region.

A CEILING ON EXPECTATIONS

The momentum toward closer Japan-Taiwan ties hit a road bump when President Chen announced plans for a “defensive referendum” to coincide with presidential elections in March 2004. Beijing interpreted the referendum to the world as a dangerous move toward independence and lobbied both the United States and Japan to denounce the act as reckless. Japan waited quietly until after President Bush criticized Taiwan for showing intent to unilaterally disrupt the status quo before sending a message to President Chen through Katsuhisa Uchida, the head of the Japan Interchange in Taipei. Uchida expressed Japan’s “concern” over the referendum and asked Taiwan to “handle with caution” issues that could unnecessarily strain China-Taiwan relations.

Despite the fact that Japan’s criticism of the referendum was muted in comparison with the United States and France, Japan received strident criticism from the Taiwan Solidarity Union, a pro-independence group organized by former President Lee. Lee himself offered the harshest criticism of Japan, accusing Japan of being weak and backing down to whatever China opposes. Lo Fu-chen, a TECRO representative in Japan, focused the attack on Japan’s MOFA, stating that it had harmed Taiwan in its handling of the referendum issue. According to Mr. Lo, the Japanese foreign ministry had failed to properly explain the referendum plan to parliament and Japanese reporters based in Taipei.

In attacking Japan’s foreign ministry, Taiwan’s representative appears to be trying to take advantage of a recent decline in MOFA’s popularity related to its handling of the abduction issue in North Korea. Japanese politicians on the right continue to hammer away at bureaucratic control of foreign policy, but it is doubtful that this strategy will soon alter Japan’s approach to Taiwan. Foreign Minister Yoriko Kawaguchi reaffirmed this fact when she visited Beijing in April 2004, stating that Japan holds to its commitments under the Sino-Japanese Joint Declaration of 1972 (a One China policy) and does not support Taiwan’s independence.

While support for Taiwan inside Japan is growing, expanding trade with China is reported to be the driver for Japan’s current economic resurgence, and it is doubtful that Japan will jeopardize relations with China, unless it was forced to choose between China and the United States. Meanwhile, current U.S. priorities with the war on terrorism and the North Korean nuclear crisis do not bode well for a policy change that favors Taiwan. All other factors aside, Japan may also hesitate to support Taiwan’s independence until it relinquishes its claim to the Senkaku/Daioyutai islands, an idea promoted by former President Lee but dismissed by Taiwan’s current leadership.

CONCLUSION

Closer engagement between Japan and Taiwan will benefit policy makers in Washington as they attempt to promote a peaceful resolution to the cross-Strait issue. Contingency planning for the area should be facilitated by Japan’s heightened awareness of related security issues and its public commitment to creating an environment in which such planning becomes unnecessary. Through demonstrating its determination to retain relations on both sides of the channel, Japan encourages neither side to act unilaterally in a way that could disrupt the delicate balance that currently exists. While clearly taking a more proactive approach to its relationship with Taiwan in recent years, the leadership in Tokyo has continued to coordinate its policy closely with Washington and is likely to do so for the foreseeable future.

The views expressed in this publication are those of the author(s) and do not necessarily reflect the official policy or position of APCSS, U.S. Pacific Command, the U.S. Department of Defense, or the U.S. Government.

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SPECIAL ASSESSMENT

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Asia's Bilateral Relations

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India-China Relations: Giants Stir, Cooperate and Compete

M O H A N M A L I K

Executive Summary

- For the first time in more than half a millennium, both India and China are on the march upward simultaneously on their relative power trajectories.
- Their disputes are many, but both share an interest in avoiding overt rivalry and conflict. A new pragmatism shapes their view of each other. Today they are building a more substantive economic relationship and pursuing cooperation in international forums on environment, trade, human rights, and economic issues.
- This incipient Sino-Indian entente has led some to argue that it has the potential to radically restructure Asian geopolitics. This study, however, argues that their bilateral relationship will be characterized more by competition than cooperation because the issues that bind them are also the issues that divide them. Neither power is comfortable with the rise of the other. Each perceives the other as pursuing hegemony and entertaining imperial ambitions.
- The Chinese have welcomed the regime change in India and are confident that the Communist-backed Congress-led coalition government would be sufficiently deferential and pursue nonconfrontational policies.
- China's containment of India takes many forms: an unresolved territorial dispute; arms sales to and military alliances with "India-wary countries;" indirect support for separatist movements; nuclear and missile proliferation in India's neighborhood; and opposition to India's membership in global and regional organizations (such as the United Nations (UN) Security Council, Nuclear Five, and the Shanghai Cooperation Organization).
- The future of the India-China relationship will be increasingly influenced by "the U.S. factor." Key issues that will determine the nature of the U.S.-India-China triangular dynamics and America's role in Asia include: India's economic growth, Pakistan's future direction, nuclear proliferation and terrorism, and the state of Sino-U.S. ties.

India and China—the world’s two oldest civilization-states, once great powers and now the most populous countries—are back as claimants to preeminence in Asia and the world. Both are heavily engaged in the global economy and possess nuclear powers with expanding military capabilities to match their growing ambitions. They also have a long history of bitter rivalry and an unresolved border dispute that erupted in war. Only during the last three years have India and China begun to shed their wariness toward each other by initiating measures to stabilize their relationship, including regular high-level visits. The rapprochement is based on a mutual need to focus on social and political stability, and strong economic growth and a sense of security, so each can avoid the perils of stagnation or decline.

The incipient Sino-Indian entente has prompted some to argue that it has the potential to radically alter India’s and China’s security environment and restructure Asian geopolitics. Long-time observers of India-China relations, however, maintain that India-China ties remain fragile and as vulnerable as ever to sudden deterioration as a result of misperceptions, unrealistic expectations, accidents, and eruption of unresolved issues. Internal issues of stability and the external overlapping spheres of influence forestall the chances for a genuine Sino-Indian rapprochement. Indeed, the issues that bind the two countries are also the issues that divide them and fuel their rivalry. With their ever-expanding economies and widening geopolitical horizons, the bilateral relationship between the two rising Asian giants could be characterized more by competition than cooperation. As India and China proceed simultaneously on their relative power trajectories, geopolitical equations and power relations in Asia are bound to undergo significant realignment.

PERCEPTIONS, MISPERCEPTIONS, EXPECTATIONS AND ILLUSIONS

Despite growing interaction at the political, cultural, and economic levels, the gulf between the two countries—in terms of their perceptions, attitudes, and expectations of each other—has widened over the last half century. While Indians constantly benchmark themselves against China, the Chinese perceive their country as a global power solely on par with the United States and make disparaging comments about India’s “unrealistic and unachievable ‘big power dreams’ (*daguomeng*).” Most Chinese remain skeptical about India’s future believing that India’s fractious polity will limit its economic and military potential.

There exists in the Chinese mind a deep distrust of India. The Chinese do not want to see India play a role beyond South Asia or emerge as a peer competitor. They have made their displeasure known over Southeast Asian countries’ recent attempts to draw India into the region. In the power competition game, China has clearly surged far ahead of India by acquiring potent economic and military capabilities and the existing asymmetry in power and status serves Beijing’s interests very well. On balance, China seems to have limited expectations from India which can be broadly described as “five No’s:”

- don’t peddle “the China threat theory”
- don’t support Tibet or Taiwan’s independence
- don’t object to the Sino-Pakistani strategic partnership
- don’t align with the United States and/or Japan to contain China
- don’t see or project yourself as an equal of China or as a nuclear and economic counterweight to China in Asia

On the basis of these “five principles,” China is willing to develop a relationship with India as part of its friendly neighborhood strategy. The Chinese government and media had welcomed the regime change in May 2004 in India, which brought into power a Left Front-backed Congress-led coalition. China believes that the Communist-backed government would be sufficiently deferential and avoid taking actions (e.g., nuclear tests) that would

incur Beijing's wrath. In the past, successive Congress governments had soft-peddled differences with China in the interest of maintaining cordial bilateral relations. The new Foreign Minister Natwar Singh has already described Sino-Indian relations as "problem-free except for the border question," an understatement given the complexity of this relationship.

Beijing would be pleased if India's relations with the United States and Israel cool off and lose the momentum that was developed in the transfers of advanced weaponry such as the Phalcon airborne early warning system to India (denied to China). Beijing sees as positive the new government's intent to reconsider support for and the collaboration with the U.S. missile defense shield. The Indian Communists' enthusiasm for a Russia-China-India axis to counter alleged U.S. hegemony would surely get Beijing's rhetorical support. Another potential casualty of the regime change could be covert actions to upgrade India's economic and strategic ties with Taiwan. Only time will tell whether Beijing's hopes and expectations of the current Indian regime will be realized. While Foreign Minister Singh is seen as a dove, National Security Adviser J. N. Dixit has a reputation for being a hardliner on security issues and is a champion of forging closer strategic ties with Southeast and East Asian countries.

On the Indian side, emotions range from the euphoria of misperceived Sino-Indian brotherhood in the 1950s, to the bitterness of India's 1962 military defeat by China, and back again to the euphoria of imagined togetherness in the twenty-first century. A cliché in vogue once again is that "India-China partnership will produce an Asian Century" (similar to former Prime Minister Nehru's dream of joint Sino-Indian leadership of Asia), even though the Chinese have shown no enthusiasm for sharing leadership of Asia with anyone, least of all India. Second, with its current focus on economic progress, China is seen as a restrained power interested in managing, if not resolving, conflict. Guided by this perception, New Delhi hopes that intensifying trade and commerce would facilitate a resolution to their protracted boundary dispute. Another expectation is that a sound India-China relationship will help induce Islamabad into a negotiated settlement of the Kashmir dispute.

Though they are competitors for power and influence in Asia, China and India also share common goals of maintaining regional stability (e.g., combating the growing Islamic fundamentalist menace), maintaining access to capital and markets, and benefiting from globalization. Cooperation could allow them to balance U.S. influence and increase their negotiating positions with the sole superpower. In a speech on November 22, 2003, then Foreign Minister Yashwant Sinha called on China "to show greater sensitivity to [India's] security concerns," and emphasized the need for both countries to "acknowledge each other's strengths and aspirations, and try to ensure that each has sufficient strategic space in keeping with the principle of multipolarity to which both India and China subscribe." Apparently, Indian and Chinese leaders continue to talk at, rather than talk to, each other.

KEY ISSUES IN INDIA-CHINA RELATIONS

THE INDIA-CHINA TERRITORIAL DISPUTE

Forty-two years after the 1962 war that erupted over a disputed border and a quarter of a century of negotiations, the 4,056 kilometer frontier between India and China, one of the longest interstate borders in the world, still remains the only Chinese land border not defined—let alone demarcated—on maps or delineated on the ground. Recently both China and India have shown a willingness to experiment with problem-solving approaches. Evidence of this came during Prime Minister Vajpayee's China visit in June 2003 when New Delhi's readiness to address Chinese concerns on Tibet was matched by Beijing's willingness to resolve the Sikkim issue by recognizing the trade route through the Nathu La Pass on the China-Sikkim frontier with India and later dropping Sikkim from

the Chinese Foreign Ministry's Web site of independent countries and from its annual survey, *China's Foreign Affairs 2004*. For its part, New Delhi reiterated its stance on the Tibetan Autonomous Region as part of China. Nonetheless, China has to date made no formal declaration that it recognizes Sikkim as an Indian territory.

Another important decision was to elevate stalled border talks to the political level with the appointment of Indian National Security Adviser Brajesh Mishra and his Chinese Vice-Foreign Minister Dai Bingguo. The new Congress-led coalition government has lent its full support to the border negotiations and appointed National Security Adviser J. N. Dixit as India's new interlocutor with China in place of Mishra. The broad contours of settlement are widely understood in both capitals—the so-called “give and take” package deal would require China to give up its claims to Arunachal Pradesh in the Eastern Sector and for India to give up its claims to Aksai Chin in the Western Sector. Within that broad framework, both sides may want minor territorial adjustments. For example, China insists on the return of Tawang on religious grounds while India could demand the sacred Mount Kailash and Mansarovar in Tibet since it is a sacred mythological and religious place associated with Hinduism. Negotiating these issues will test the diplomatic skill and political wisdom on both sides. The previous government could have gone the extra mile because of its hardline nationalist image, but that cushion is not available to the Congress-led government propped up by pro-Beijing Communist parties.

Skeptics, however, argue that a breakthrough is unlikely. For one thing, an unsettled border with India suits Chinese interests more than a settled boundary. A resolution of the Sino-Indian border dispute would lead to the deployment of India's military to the India-Pakistan border, thereby tilting the military balance decisively in India's favour to the disadvantage of China's ally Pakistan. Second, it is noteworthy that Chinese Foreign Ministry's *2004 Yearbook* says nothing of the Chinese concession on Sikkim while portraying India's stance on Tibet as a major one-sided concession by India's Vajpayee. Such tactics, coupled with periodic reports of encroachments across the Line of Actual Control (LAC) and Chinese small arms supplies to insurgents in India's volatile northeast via Bangladesh, reinforce India's suspicion about Chinese motives. Even the burgeoning economic ties cannot alleviate India's unease stemming from an unresolved border which is anomalous given Beijing's acceptance of China's British-drawn boundaries with Afghanistan and Burma and the speedy settlement of China's land border disputes with Russia, the Central Asian states and Vietnam in the late 1990s.

THE PAKISTAN FACTOR: “DEFICIT OF TRUST”

Although China acknowledges India's dominant role in South Asia, it seeks to ensure that Pakistan remains a strong military counterweight to India. The Beijing-Islamabad “special relationship” is part of China's grand strategy that molds the Asian security environment. The Sino-Pakistan military alliance (in particular, the nuclear and missile nexus) ensures that the South Asian military balance of power is neither pro-India nor pro-Pakistan but remains pro-China. Beijing shares Islamabad's deep mistrust of India's strategic ambitions and sees India as a rising power that must be balanced. The Chinese believe that as long as Indian military is preoccupied with Pakistan on its western frontier, New Delhi cannot focus on China and East Asia. Beijing rightly calculates that if New Delhi cannot sway the subcontinent, its influence in the larger arena becomes moot.

For India, Pakistan cannot be a threat without China's military support just as Taiwan cannot constitute a threat to China without U.S. support. India's ex-Foreign Minister Sinha attributed Beijing's nuclear assistance to Pakistan as the root cause of “deficit of trust” between the two countries. However, Beijing has made it clear that it will not

improve ties with India at the cost of Pakistan. On a cost-benefit analysis, the combined strategic and political advantages that China receives from its alliance with Pakistan (and, through Pakistan, other Islamic countries) easily outweigh any advantages of a closer relationship with India. Pakistan is vitally important to China's energy security (by providing access to and naval bases in the Persian Gulf), military security (by keeping India's military engaged on its western frontiers), geopolitics (given its geostrategic location at the intersection of South Asia, Central Asia, and the Middle East), national unity and territorial integrity (maintaining control over Tibet and Xinjiang), maritime strategy in the Indian Ocean, and as a staunch diplomatic ally (in international forums, including the Islamic world), a buyer and supplier of conventional and unconventional weaponry, and above all, as a powerful bargaining chip in China's relations with India and the United States.

However, this is not to say that all is well with Sino-Pakistani ties. China has advised Pakistan since the mid-1990s against embarking on military misadventures and flirting with terrorism and religious extremism to further its geopolitical interests in Afghanistan and Kashmir. Beijing has also repeatedly voiced concerns over Uighur Muslim separatists links with Pakistan-based *jihadi* organizations. Equally discomfiting for the Chinese is the growing U.S. presence in Pakistan and Central Asia and General Musharraf's dependence on Washington for survival. Beijing is certain to go all out to prevent Pakistan from falling completely under American influence. In addition to Pakistan, the Chinese have lately tightened its embrace of India's neighbors—Burma, Bangladesh, Sri Lanka, and the Maldives—to gain access to naval bases in the Indian Ocean.

NUCLEAR PROLIFERATION AND MILITARY COMPETITION

China's nuclear and missile proliferation is another significant source of contention. It is the adversarial nature of the Sino-Indian relationship that has driven India's and Pakistan's nuclear weapons program. While major Western powers have grudgingly acknowledged India's de facto nuclear status, Beijing shows no sign of softening its demand that New Delhi initiate a complete rollback of its nuclear weapons program and unconditionally participate in the Comprehensive Test Ban Treaty (CTBT) and the Nuclear Non-Proliferation Treaty (NPT) as a Non-Nuclear Weapons State. China's nuclear diplomacy seeks to deny India entry into the exclusive Nuclear Five Club and to distance Beijing from any move that would acknowledge, legalize, or legitimize India's status as a Nuclear Weapons State. Beijing has also consistently rejected New Delhi's proposals for bilateral nuclear confidence-building measures (CBMs).

Not surprisingly, Chinese Foreign Minister Li Zhaoxing has formally ridiculed Indian Foreign Minister Natwar Singh's call for a "common nuclear doctrine for India, China, and Pakistan based on no-first-use (NFU) pledge." The idea of a common nuclear doctrine—though impractical and unrealistic given their different security imperatives—is founded on the Congress Party foreign-policy document which talks of "credible, transparent, and verifiable CBMs in treaty form to minimize the risk of nuclear and missile conflict with Pakistan or China." The call was prompted largely by China's withdrawal of its NFU pledge to India in 1995 when China amended its nuclear doctrine to make the NFU pledge applicable only to NPT member-states. Since neither China nor Pakistan follows a policy of NFU of nuclear weapons vis-à-vis India, New Delhi seeks to bind them to a NFU pledge. What irks New Delhi most is that even as China demands India's denuclearization, Beijing continues to proliferate in violation of its legal commitments under the NPT. The recent offer of a second Chinese nuclear reactor to Pakistan despite growing international concern over Islamabad's troubling nuclear proliferation record is a case in point. It will indeed be an uphill task for the new Indian government to get China to discuss nuclear security matters with India.

On the positive side, a regular security dialogue has begun, and Indian and Chinese navies conducted their first search and rescue exercise in November 2003. In March 2004, the two sides also agreed to enhance bilateral defense relations and, for the first time, granted observer status to military officers at each other's exercises. More importantly, China and India support Europe's challenge to American space supremacy by investing Euro 200 million and 300 million respectively in the Galileo global satellite navigation system. Both see the Galileo project as a real alternative to the de facto monopoly of the American Global Positioning System and the Russian GLONASS system.

Nonetheless, the fact remains that the Indian and Chinese militaries see each other as future rivals and each points to threatening trends and behavior in the other. Both keep a close watch on changes in military doctrines, defense spending, capabilities and related activities and remain committed to neutralizing perceived security gains of the other side. Both preach nuclear disarmament but continue to expand their nuclear arsenals. Possession of nukes may be vital to preserving strategic autonomy for India and China but it also raises the stakes in their competitive relationship.

ECONOMIC RELATIONS: CONVERGENCE AND DIVERGENCE

Burgeoning economic ties between the world's two fastest growing economies have become the most salient aspect of the bilateral relationship. Mutually beneficial economic ties could provide a cushion in times of crisis over future nuclear and military security issues. Bilateral trade is rising rapidly (from US\$350 million in 1993 to nearly US\$7 billion in 2003) and could exceed US\$10 billion in 2004 then double by 2010. In 1994, India displaced Pakistan as China's largest trading partner in South Asia, and in 2003 China displaced Japan as India's largest trading partner in East Asia. There is talk of India and China eventually signing a free-trade agreement to create the largest market with more than 2 billion people. Many Chinese companies are keen to form joint ventures (JVs) with India's information technology (IT) industry while Indian manufacturing companies stand to benefit from JVs with China's consumer goods industries. China's electric consumer goods companies like Hai'er and Konka and India's IT and pharmaceutical companies such as Infosys, NIIT, Satyam, Ranbaxy, and Dr. Reddy's have established some presence. Several JVs in power generation, consumer goods, steel, chemicals, minerals, mining, transport, IT, and telecommunication are in the pipeline.

However, Indian and Chinese economies are still more competitive than complementary. Both look to the West and Japan for advanced technology, machinery, capital, and investment. Many Indians see China as predatory in trade, worry about China's robust growth rates, and fear getting left behind. The Chinese economy is about 2.3 times greater than India, and China receives ten times more foreign investment than India. Even in the IT software sector, as one *Beijing Review* (March 25, 2004) commentary put it: "A fierce face-off with an old competitor—India—has [just] begun."

ENERGY SECURITY SPAWNS MARITIME RIVALRY: OIL AND WATER DON'T MIX

The traditional Sino-Indian rivalry has now acquired a maritime dimension. Both face growing demand for energy and are locked in fierce competition for stakes in overseas oil/gas fields in Russia, Burma, Iran, Iraq, Sudan, Vietnam, and Libya. A recent US\$600 million acquisition in Angola by Indian oil company was won after a fight with a Chinese bidder. Competition between India and China has also intensified in Central and Southeast Asia as both view these regions as vital sources of natural resources and markets for their goods. However, China currently has an overwhelming lead over India both economically and diplomatically. Each has put forward its own proposals for multilateral cooperation

that exclude the other. Nearly 70 percent of China's trade is through the Strait of Malacca, the Indian Ocean, and the Suez Canal. The predominance of the U.S. and Indian navies along these sea-lanes of communication (SLOCs) is viewed as a major threat to Chinese security. To protect its long-term economic security interests, China is now laying the groundwork for a naval presence along maritime chokepoints in the South China Sea, the Malacca Straits, the Indian Ocean, and the Strait of Hormuz in the Persian Gulf through acquisition of naval bases in Cambodia, Burma, Bangladesh, and Pakistan.

India has countered by promoting defense cooperation with Iran, Oman, and Israel in the west while upgrading military ties with Burma, Singapore, the Maldives, Thailand, Vietnam, Taiwan, the Philippines, Australia, Japan, and the United States in the east. India's new naval doctrine is to influence events around the Indian Ocean and beyond. As part of its "Look East" strategy, India has concluded over a dozen Defense Cooperation Agreements in the last decade and the Indian Navy has been holding joint naval exercises with Japan and Southeast Asian countries at regular intervals. Maritime competition is likely to intensify as Indian and Chinese navies show off their flag in the South China Sea and the Indian Ocean with greater frequency. Not only that, a new, potentially divisive issue appears to be the ecological impact on the Indian subcontinent of Chinese plans to divert Tibet's rivers to irrigate China.

U.S.-INDIA-CHINA TRIANGULAR DYNAMICS

India and China have long been suspicious about the other's relationship with the United States and see it in zero-sum terms. For the first time in decades, both are simultaneously working to establish a multidimensional engagement with Washington. However, Beijing is concerned about a shift in the regional balance of power in view of Indo-U.S. strategic engagement and is proactively wooing India to prevent Washington and New Delhi from coming too close for China's comfort. While championing multipolarity and opposing the growing U.S. unilateralist policies, both India and China remain suspicious of each other's long-term agenda and intentions and attempt to fill any perceived power vacuum or block the other from doing so. Interestingly, both are also courting the United States, each one seeking to move closer to Washington, albeit temporarily. How India and China resolve their differences on Pakistan, border dispute, and the UN Security Council expansion will have significant implications for Asia and America's place in it. Other issues that will determine the nature of the India-China-U.S. triangular dynamics include India's economic prospects, proliferation and terrorism, and geopolitical contest between the United States and China, and China and India.

First, economic stagnation or slower economic growth under the Left Front-backed Congress government would heighten India's anxieties about China's relative power and perhaps prompt New Delhi to either appease or bandwagon with Beijing. In contrast, slower economic growth under the nationalist BJP-led government that worsens India's insecurities vis-à-vis China would see India balancing China by tilting toward the United States and/or reaching out to other "China-wary countries" such as Russia, Japan, Taiwan, and Vietnam. On the other hand, a sustained economic growth rate of 8-10 percent would impart greater confidence to pursue an independent (nonaligned) foreign policy without any fear of China's ability to undermine India's vital interests. In short, an economically strong India is less likely to give in to Beijing's inducements and pressures to weaken its ties with Washington than a weak India.

Second, nuclear and missile proliferation by China and its proxies—Pakistan, North Korea, and Burma—in India's neighborhood might tempt New Delhi to retaliate in ways that would undermine global nonproliferation and invariably influence the U.S.-China-India relations. Third, the Global War on Terrorism impinges a great deal more on India-U.S. relations than on China-U.S. relations. Both India and China are critical of the Bush

Administration for diverting its energies and resources from the Global War on Terrorism to the War on Iraq. However, New Delhi does not want Washington to fail, for then the jihadis will assume that the rest of the world is theirs for the taking, and India would bear the full brunt of jihadi terrorism. Thus, unlike the Chinese, who might rejoice over the U.S. strategic discomfort in Iraq and Southwest Asia as it gives them greater strategic latitude and rules out new U.S. entanglements in the Taiwan Strait and the Korean Peninsula, India will have more to lose from the U.S. defeat in that region.

Fourth, in the short- to medium-term, China and Pakistan taken together will remain more valuable as strategic partners for the United States than India because of their assistance in dealing with terrorism and nuclear proliferation concerns. Over the long term, however, this perception could change if U.S.-China relations deteriorate as China's power and ambitions grow and U.S. expectations from China are not met. Strained U.S.-China relations would make India the pivotal power in the U.S.-China-India triangle. Conversely, tense India-China relations would put the United States in a pivotal position.

Last, New Delhi's efforts to establish closer ties with Southeast and East Asian countries and emerge as an independent power suggest future tension and friction between India and a China that aspires for regional and global dominance. Security concerns regarding a rising China have prompted many Southeast Asian countries to cultivate India as an alternative power to prevent the region from becoming an exclusive Chinese sphere of influence, an objective shared by the United States and Japan. In one sense, India's "Look East" policy sends a "signal to China that India can become part of an anti-Chinese coalition should China take stances that threaten the security of its neighbors."

CONCLUSION

For the foreseeable future, both India and China would avoid entangling alliances to maximize their options. India will neither join the United States to contain China nor align with Beijing (or Moscow) against Washington. Both India and China value their ties with the United States more than with each other. New Delhi also sees some degree of U.S.-China competition in its interest because it makes India the object of courtship by both the United States and China. Better Sino-Indian atmospherics can in no way challenge U.S. predominance. The future of the Asian security environment depends a great deal on how the United States manages the rise of China and how China, in turn, manages the rise of India. The five-decades-long history of China's India policy, however, does not give one much cause for optimism. Improvement in China-India relations over the long term will also depend upon Beijing's assessment of India's evolving political cohesion, economic growth, and military potential. In fact, China's behavior toward India is not much different from that of the U.S. behavior toward China for the simple reason that China is a status-quoist power with respect to India while the United States is a status-quoist power with regards to China. The existence of two economically powerful nations could create new tensions, as they both strive to stamp their authority on the same region. It is possible that economically prosperous and militarily confident China and India might come to terms with each other eventually as their mutual containment policies start yielding diminishing returns.



SPECIAL ASSESSMENT

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Asia's Bilateral Relations

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China-Russia Relations: Can "Bamboo and Pine Trees" Grow Together?

ALEXANDRE Y. MANSOUROV

Executive Summary

- China and Russia are now led by pragmatic leaders who focus on domestic economic growth and political stability. But, it is unclear whether this harmony in national goals and principles can override long-standing mutual suspicions and overcome a cacophony of contradictory domestic interests.
- Despite intensifying Sino-Russian political consultations and military-to-military relations, fears about the "Yellow Peril" in Russia and "Red Heat" inside China still persist particularly in the respective national security establishments.
- Sino-Russian "reluctant" economic cooperation lags far behind the two nations' political declarations about "strategic partnership." Notwithstanding tremendous long-term potential, the promises of bilateral trade and investment cooperation in the oil and gas sectors, heavy industries, banking, and even transportation still remain unfulfilled.
- Internationally, China and Russia find themselves in an asymmetrical relationship with their strategic roles reversed from the Cold War days. A rising China intensifies its regional proactive diplomacy, partly aimed at countering America's global activism, while a retrenching Russia pursues a minimalist passive-reactive policy in world affairs, by and large, accommodative of U.S. interests.
- If Chairman Hu Jintao and President Putin get along, "Chinese bamboos" and "Russian pine trees" may indeed be able to grow peacefully and blossom together even in Uncle Sam's global "hothouse."

HARMONY OF BASIC GOALS, BUT WHAT MORE?

Sino-Russian relations have witnessed peaks, precipices, and valleys. They oscillated from communist alliance in the 1950s to a bitter ideological split and cross-border hostilities between the 1960s and 1980s to normal state-to-state relations in the 1990s. They avoided war but not profound disagreements. Whether Russia and China can give substance to their mutually stated “strategic partnership” is an open question.

Both countries, led by a new generation of Westernized pragmatic leaders, now focus on domestic economic growth and political stability, and their relations in part emanate from these priorities. Although Moscow and Beijing strive to recover national unity as well as rebuild national power and international prestige through either reintegration of the near abroad or “the reunification of the motherland,” they seem to shy away from the more aggressive goals of “liberal empire-building” and “restoration of the middle kingdom” or more menacing designs of building a protectionist “fortress Russia” or “fortress China.”

The strategic partnership is designed to lean on each other’s shoulders in the international arena in order to avoid war and grow together in peace. They both support the often-stated principles of multipolarity, the United Nations (UN)-centered international order, strategic arms control, primacy of state sovereignty and noninterference in domestic affairs, especially in the Chechen and Taiwan issues. Since September 11, 2001, the original implicit anti-American flavor of the strategic partnership has been toned down. Now Moscow and Beijing are both part of the U.S.-led international coalition fighting against global terrorism, separatism, and religious extremism particularly in Central Asia. But beyond this, how many common political, military, national security, and economic interests do they really share in practice?

MILITARY SECURITY AND DIE-HARD MUTUAL SUSPICIONS

The dissolution of the Soviet Union in 1991 and dramatic rise of China in the past decade have fundamentally changed the balance of power and influence between the two neighbors. Russia’s newly abridged state is barely capable of suppressing a domestic insurgency in Chechnya. Its underperforming military of 1.2 million men is saddled with funding, discipline, resource, and training problems. Guarding the 4,300 km border with 1.4 billion men, China is a challenge. Russia’s once-feared tank armadas are rusting in the partially abandoned military bases scattered around Siberia and the Far East. Russia’s margin of military-strategic immunity vis-à-vis China has shrunk substantially. Hence, any planning of offensive military operations or preemptive warfare is no longer possible. Strategic nuclear deterrence under the officially lowered nuclear threshold, defensive planning, and full-court mining of the border in the absence of manpower to guard it appear to be the only viable options available to Russian military planners if ever confronted with a potentially reassertive nationalist China.

In order to placate the Chinese military leadership and persuade it that Moscow has no aggressive intentions toward Beijing, for the past decade Russia has been selling large quantities of all sorts of advanced weapons and military equipment to its former enemy (valued on average at \$1.5-\$2 billion per year). Some Russian nationalists regard Russian sales to China of sophisticated and underpriced weapons systems and technologies as appeasement or “bribery” designed to mollify the Chinese military’s thirst for military modernization at a time when China is under a Western arms embargo. To be sure,

profitable Russian arms sales also help rebuild and modernize the Russian defense industrial complex, and bring in badly needed hard currency from China, which boasts one of the largest foreign exchange reserves in the world. The Russian military argues that the military equipment and technologies transferred to China are still at least one generation behind their respective counterparts in the Russian armed forces and, therefore, Moscow still enjoys a large "margin of preponderance" over China. In addition, they are meant to generate additional political capital for Moscow in Beijing to be redeemed at the time of a crisis. In the worst case scenario—should China ever decide to use these sophisticated weapons—the hope in Moscow is that the People's Liberation Army (PLA) would rely on the Russian arms in its military operations in the southern and southeastern directions rather than along its northern frontier.

Russian optimists ("China enthusiasts"), mostly concentrated in Moscow rather than the Russian Far East (RFE), argue that during the era of *xiaokang* ("small well-being"), China's current leadership is mostly preoccupied with maintaining domestic stability and traditional order under the pressure of rapid technical modernization and economic growth rather than with external expansion or reordering of the international status quo. "Prosperous tranquility of the golden middle" appears to be their paramount desire. These analysts generally do not foresee any potential Chinese expansion affecting Russia directly and call for strong ties with China. In the Siberian permafrost and the underdeveloped RFE, the climate is too cold, distances are too long, population too unruly, and production costs too high for the Chinese to invest or resettle en masse voluntarily, much less expand into the area by force. If anything, since time immemorial China has tried to protect its northern frontier from barbarian invasions by building the Great Wall of China under the Emperor Qin Shihuan, raising the Genghis Khan Rampart, and constructing the engineering fortifications of the Beijing defensive line under Mao Zedong. These Russian analysts continue to believe that China will focus on expanding its presence, influence, and role toward the south in the direction of warmer seas in Southeast Asia and the Pacific, where large population centers, cultural affinities, and rich markets beckon, as it has been doing relentlessly for centuries.

However, Russian pessimists ("China hedgers") especially those residing in Siberia and Pacific Russia in the Far East, stress Russia's vulnerability to China's demographic pressures and point to China's modern historical pattern of the use of military force outside its territorial boundaries including: the Korean War (1950-53); India 1962; USSR 1969; the Paracels Islands 1974; Vietnam 1979; Spratley Islands 1988; and the Taiwan Straits 1996. They warn that in the future, one cannot rule out a localized use of Chinese military force outside and along its national borders in order to humiliate and undermine any uncooperative neighboring government, or to derail the neighbor's economy in the interests of China or even a local Chinese community. The Chinese seem to consider such punitive, limited use of force "to teach a lesson" as legitimate, acceptable, just, and effective. In the words of Sui Guanui, a leading Chinese defense thinker, it "blocks the quantitative accumulation of sharp contradictions, thereby preventing the escalation of tensions into a large-scale war."

In its threat assessment titled "On Main Directions of Maintaining National Security in the Far Eastern Federal District" and submitted for consideration at the Russian National Security Council on November 27, 2002, the Russian General Staff stated that the Far Eastern strategic direction is not likely to be subject to "a threat of armed foreign invasion in the next ten to fifteen years," but allowed for the possibility of a "growing military threat from abroad, as China's combined national power continues to amass in the years to come." In 2002, the Russian armed forces reportedly conducted major staff and

field exercises in Eastern Siberia. The intent was to refine contingency plans in response to a simulated large-scale Chinese invasion of Eastern Siberia based on a hypothetical border clash that escalated into a regional war as a result of strategic deterrence failure. The Siberian and Far Eastern military districts, which are responsible for the defense of the Russian territory in question, are said to have lost the war game to their phantom foreign enemy in the just-described scenario.

Furthermore, the new Ivanov doctrine, which is named after its author, Russian Defense Minister Sergei Ivanov, and was published by the Russian Ministry of Defense in late 2003, emphasizes strategic deterrence of a regional war as “the number one priority for the forces of constant combat readiness in the Far Eastern strategic direction,” followed by strategic deterrence of a large-scale war and participation in border conflicts. This doctrinal evolution suggests that Moscow no longer plans offensive military operations against China, as it did in the 1960s-1980s; instead, it is preoccupied with defensive planning and homeland security against the background of fluctuating China threat perceptions reinforced by strong xenophobia and anti-Chinese sentiment among local population in the RFE.

Clearly, the Russian and Chinese militaries still harbor residual suspicions about their long-term mutual intentions, especially in the border areas, despite the much hailed strategic partnership; the border delimitation, demarcation, and demilitarization agreements of the 1990s; regular high-level consultations between the Russian and Chinese ministries of defense, general staffs, and local commands; military-to-military educational exchanges; and promising Russian-Chinese cooperation within the framework of the Shanghai Cooperation Organization (SCO). That is why Moscow rejected Beijing’s offer of joint border patrolling in 2003 though it lacks the manpower and resources to accomplish that on its own. Also, the Russian government still refuses to allow the construction of the narrow gauge 80 km railway between the Hunchun/Kraskino border crossing point and the RFE port of Zarubino via the Ussuri Region, which could give China direct access to the Pacific Ocean. Amidst both militaries’ soul-searching, the ghosts of the “Yellow Peril” in Moscow still clash occasionally with the ghosts of the “Red Heat” in Beijing.

ECONOMIC COOPERATION, ENERGY SECURITY, AND WTO CONCERNS

After a period of stagnation in the second half of the 1990s, Sino-Russian bilateral trade had increased from \$5.72 billion in 1999 to about \$16 billion in 2003. Russia’s accumulated trade surplus for 1999-2003 had reached almost \$21.5 billion. Although \$15.7 billion is a record level for the bilateral trade, all Russian and Chinese players are still dissatisfied with the current state of economic cooperation. The “maximalists” believe that because of the huge economic potential, complimentary structure, and rapid growth of both economies, the desirable bilateral trade volume should be around \$100 billion on par with China’s trade with other great powers, i.e., Japan and the United States. The “minimalists” handicap the attainable annual trade turnover at \$20 billion and blame a variety of reasons: the arbitrary and obscure terms of trade; impeded market access; mono-product dependencies; market externalities in bilateral trade; increased level of foreign competition; influential domestic protectionist lobbying; poor record of mutual investment cooperation; growing trade imbalance; and overall limited export opportunities for both nations because of their respective strategies of import substitution. The “golden middle” experts speculate that Sino-Russian trade may quadruple and reach an estimated \$40 billion by 2020, assuming that the People’s Republic of China’s (PRC) gross national

product (GNP) quadruples by 2020 and the Russian economy grows at 7-8 percent per year for the next fifteen years. In other words, expectations are high but still remain far from reach despite emerging positive trends in bilateral trade.

Other areas of economic cooperation have been less successful. Investment cooperation and joint development of infrastructure have generally fared poorly with the exception of Russian participation in the construction of the first energy bloc of the Tianwan Atomic Energy Station in Liangyungang due for commissioning in October 2004. Political declarations about strategic partnership and intergovernmental agreements to promote bilateral trade did not help the Russian EnergoMashExport corporation prevail in China's government-sponsored international tender in the Three Gorges project. The project consisted of building a huge cascade of hydroelectric power stations on the Yangtse River in the second half of the 1990s. The Russian company lost the main tender and all contracts to Western competitors despite its lowest and most cost-efficient bid; the official protestations of the Russian Embassy in Beijing; minister-level lobbying for the Russian interests in the bilateral intergovernmental commission; and even a few personal telephone calls by Prime Minister Chernomyrdin to his Chinese counterpart. The Russian electric machine-building industry did not get a single subcontract to provide the simplest turbine and did not make a penny in the Three Gorges project. In the words of a mid-ranking Russian government insider who was intimately involved in Sino-Russian negotiations on this matter, "The Chinese heart proved to be unresponsive to the Russian appeals to the 'shared goals and values' of the strategic partnership; instead, once again it demonstrated 'despise for the weak' and 'respect for the strong and powerful.'"

In general, deliveries of Russian civilian machinery and machine equipment (which represented a 20.1 percent share of all Russian exports to China in 2002) are steadily declining and are of a one-time nature, despite China's drive to modernize its rusting industrial belt in the northeast and its strategy of accelerated development in the western regions. Due to the growing supply of better and cheaper equipment from other advanced countries, China appears to lean less and less on Russian equipment and industrial technology just as its need for such goods increase enormously.

Also, considerations of strategic partnership did not appear compelling in Beijing when China decided to retool its civilian aircraft fleet entirely with Western-built airplanes. The Chinese government spent billions of U.S. dollars to buy three dozen U.S. Boeing 737 aircraft and billions of euros to purchase European Airbus A-300s while agreeing (under heavy pressure from the Kremlin) to procure just five of the newest Russian TU-204 aircraft (three for postal deliveries) valued at \$150 million each.

It is obvious that no breakthrough in bilateral trade will be possible without the initiation of large-scale deliveries of Russian hydrocarbon fuels to China. But all three large-scale projects for the delivery of oil and natural gas from Russia to China, which have been thoroughly studied since the early 1990s, are still on the drawing board and seem to be headed nowhere, due to the latent clashes of important national interests and incessant opposition from influential domestic and foreign players.

The Angarsk-Daqing 2,400 km oil pipeline project (capable of transporting 25-30 million tons of crude oil per year for twenty-five years from the Yukos-controlled Tomsk oil fields, which need \$1.7 billion for construction/can generate more than \$6 billion in additional Russian exports to China) appears to have fallen victim to the global fight for long-term oil supplies and regional power struggles. The following difficulties are just the tip of the iceberg of sharp Sino-Russian disagreements regarding the oil pipeline project: central government manipulations with projections of available oil deposits for internal consumption and exports to the Asian-Pacific Region; Japan's alternative offer of \$6-\$7

billion to build an Angarsk-Nakhodka 4,300 km oil pipeline; local lobbying for the domestic routing of the oil pipeline across all RFE provinces; the infamous Yukos affair and reluctance of other private Russian oil companies to get involved in the Sino-Russian oil business; and differences over ecological impact assessments.

The fundamental reality is that both nations find themselves on opposite sides in the global fight for shrinking oil resources despite China's strong interest in securing a stable and predictable channel of long-term crude oil supplies and Russia's serious interest in diversifying its oil export markets away from Western Europe. As a global oil exporter, Russia benefits from rising world oil prices, which obviously will hurt China as the world's second largest oil importer. Many Russian experts believe that China needs the Angarsk-Daqing oil pipeline in order to create its own independent strategic oil reserves by pumping cheap Siberian crude oil into its own now-exhausted oil fields in the Daqing area. If that is the case, Moscow may be reluctant to satisfy Beijing's immediate thirst for energy and help Beijing establish an energy safety net, since such Chinese flexibility of maneuver may hurt Russian ability to unilaterally dictate oil prices in the future. Moreover, as a precondition for investing billions of U.S. dollars in the construction of the oil pipeline, the Chinese government wants to fix the long-term per barrel price of Russian crude oil to China in the \$18-\$20 range for the next twenty-five years. Expecting global oil prices to rise in decades to come, the Russian government prefers to wait for a higher long-term price fixed at \$32-\$35 or even better, while contemplating a move to spot market pricing in the long run. Tens of billions of U.S. dollars in future oil revenues are at stake in this negotiation. Moscow believes time is on its side, whereas Beijing loses patience and accuses its counterpart of stalling, price gouging, and insincerity. Obviously, the lack of cooperation in the oil sector undermines the spirit of strategic partnership from China's point of view.

Beijing tends to interpret Moscow's indecision on oil as being unfriendly and a sign of Russia's intention to constrict China's economic growth by choking its future energy supplies. In response, the Chinese government seems to have decided to largely exclude Russian participation from its long-term project of gasification of China's huge residential and industrial markets. Despite all intergovernmental agreements and intensive personal lobbying by senior government officials, the Russian government-owned gas monopoly Gasprom lost its bid in the Chinese government-sponsored tender to provide equipment and build the largest 4,200 km gas pipeline from Xinjiang to Shanghai that will cross the entire Chinese mainland from east to west. The \$14 billion project went entirely to the Western and Chinese companies and their subcontractors.

Moreover, major Chinese oil and gas concerns have demonstrated increasing reluctance to invest in the construction of two gas pipelines in Russia, earlier agreed upon with Russian corporations Sidanko and Gasprom more than ten years ago—one from Irkutsk Region's Kovyktinsk gas fields to Northeast China with an outlet to the Republic of Korea (ROK) and the other from the Chayandinsk gas field in the Yakutia-Sakha Republic to Northeast China. Obviously, neither oil nor gas can fuel the much-touted Sino-Russian strategic partnership.

Instead, in a pique to Moscow and as a part of its decade-old penetration into the Central Asian republics formerly ruled by the old Soviet Union, China has recently intensified its energy cooperation with one of Russia's growing economic rivals for domination in the post-Soviet economic space: Kazakhstan. The Chinese government has set its eyes on the vast Kazakh Karachagansk gas fields and is sponsoring the construction

of a 3,000 km Kazakh-Chinese gas pipeline as a more cost-efficient and reliable alternative to Russian supplies. In addition, at the Kazakh-Chinese summit in May 2004, Beijing reportedly promised to pay \$2.5-\$3 billion for the construction of a 1,000 km oil pipeline from Atasu in Western Kazakhstan to Alashankou in western China. Oil and gas from Kazakhstan, a newly discovered "friend and good neighbor," appear to better satisfy China's increasing thirst for fuel than from the energy resources from its "reluctant" strategic partner, Russia.

"Rather difficult negotiations" with China (as described by Maxim Medvedkov, deputy minister at the Russian Ministry of Economic Development and Trade [MEDT]) over Russia's accession to the World Trade Organization (WTO) pose another challenge to the stumbling trade relationship. In 2002, China's Ministry of Commerce began to use the WTO-authorized anti-dumping investigations and imposed protectionist measures against leading Russian manufacturers of the goods that constitute the foundation of Russian exports to China—cold-rolled steel and chemical products. These sanctions allegedly cost Russian businesses, like the Magnitogorsk Metallurgy Combine, hundreds of millions of U.S. dollars in lost revenues and noticeably reduced their market shares in China. Obviously, Russia strenuously objected to such a unilateral way (i.e., outside the mutually agreed-upon framework of bilateral intergovernmental commission on trade dispute resolution) of reducing Beijing's trade deficit with Moscow, but the Russian MEDT is reluctant to impose retaliatory sanctions because "Russia cannot afford waging a trade war with the second largest economy in the world," as Medvedkov put it.

Furthermore, despite Chinese leaders' repeated official statements that they welcome Russia's immediate accession to the WTO and will extend whatever assistance necessary to accomplish this, in several rounds of protracted intergovernmental talks, Beijing set forth conditions unacceptable to Moscow. For instance, Russia refuses to grant the visa-free access for Chinese labor (including the so-called "shuttle traders") to the Russian labor markets, which raises the specter of the uncontrolled Chinese demographic expansion in Siberia and the RFE. Russia also protested China's demands regarding the liberalization of timber industry and automobile imports.

Both countries recognize that Russia's admission to the WTO would be an important step in ensuring stable and predictable conditions for mutual trade. The problem, according to some Russian liberals, is that Beijing seems to feel that it had to endure too much from the West and sacrifice a lot in its own accession talks. That is why now it has the "moral right" to recoup those initial losses at the expense of another latecomer, Russia. As one Russian trade negotiator put it, "There is no pity for the weak in the Chinese soul that respects only power." Repeating the mantra of strategic partnership alone will not help Russian oligarchs enter the WTO on the back of the Chinese mandarins.

In sum, the Sino-Russian "reluctant" economic partnership combines the elements of mutual dissatisfaction and lack of complete trust on one hand, and a shared understanding of mutual economic dependencies—especially in the border areas of Siberia and the Far East—and the need to find mutually acceptable solutions within the framework of the 2001 basic treaty and extensive bilateral intergovernmental consultation mechanism on the other hand. The "breakthrough" economic diplomacy failed to produce meaningful results in the 1990s, whereas a more conservative "small steps" approach in the 2000s did generate some progress in bilateral trade. Still, it is very difficult to match China's exploding demand for energy, food, fresh water, and other natural resources with Russia's own desire for development and security.

CONCLUSION:

"Hu and Pu" and Uncle Sam: Balancing Between Conditional Accommodation and Equidistance

Since September 11, 2001, Beijing and Moscow have witnessed the emergence of the United States as a new Central Asian great power and the expansion of the North Atlantic Treaty Organization's (NATO) security commitments through the German, British, and Turkish military presence in Afghanistan to the northwestern frontiers of China and southwestern frontiers of Russia. In their hot pursuit of the global fight against international terrorism and search for new energy supplies in Central Asia, both the United States and NATO came right to the Sino-Russian border, establishing a bridgehead in China's northwestern rear and Russia's southwestern rear in what previously used to be their strategic backyard and an America-free zone. As the United States encircled China and engaged Russia from three directions, both Beijing and Moscow can no longer consider the security of their respective eastern and western fronts without the assessment of the U.S. strategic plans in Central Asia. The growing U.S. military and economic presence in Central Asia, without doubt, raised new security concerns and created a new incentive for Russia and China to seek closer bilateral cooperation within the framework of their strategic partnership and the SCO on their Central Asian frontiers.

At present, neither China nor Russia is willing or able to reject or check American global activism. The post-September 11 global balance of power and perceived threat environment compel them to move to conditional accommodation of U.S. policies and interests in their respective strategic spheres of influence and areas of their national security and economic concerns. As their respective ties with Washington gradually improve, they might find themselves pursuing a parallel policy of de facto equidistance vis-à-vis the United States and each other. American actions always loom large in the background of Sino-Russian strategic interaction from joint antiterrorist collaboration against radical Islamic separatism and extremism in Central Asia and its environs to unswerving solidarity on the Taiwan issue; conditional acceptance of the U.S. military presence and nuclear nonproliferation concerns on the Korean peninsula and in Japan; cautious acquiescence to the growing U.S. power in Central Asia; lukewarm opposition to the escalating threat of controlled nuclear proliferation emanating from India and Pakistan; and to persistent criticism of the U.S. policies in Iraq, Iran, Afghanistan, and the Middle East. Moscow and Beijing increasingly fine-tune their strategic partnership with each other in accordance with the prevailing winds of their own paramount strategic cooperation with the United States, thereby satisfying most of all their selfish national interests at the expense of their respective strategic partner and competitor alike.



SPECIAL ASSESSMENT

OCTOBER 2004

Asia's Bilateral Relations

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Russia-Japan Relations: Prisoners of History?

J O H N H . M I L L E R

Executive Summary

- Russo-Japanese relations are bedeviled by a dispute over ownership of the southern Kuriles (or “Northern Territories” as the Japanese call them) that were seized by the Soviets in 1945.
- Fifty years of on-again, off-again negotiations between Moscow and Tokyo aimed at reaching a settlement have foundered on the rocks on Japanese and Russian nationalism.
- The dispute is complicated by mutual dislike and distrust between Russians and Japanese, which stem largely from the troubled historical relationship between the two countries.
- President Putin and Prime Minister Koizumi are nevertheless seeking to build a closer bilateral partnership based on Russo-Japanese cooperation in developing Siberia's energy resources.
- The prospects for this partnership depend in part on Koizumi's ability to demonstrate to the Japanese people that he is making progress toward recovering the disputed islands.
- A Russo-Japanese rapprochement would support U.S. interests by strengthening Koizumi and Putin domestically and enabling them to balance a “rising China” more effectively.
- But given the U.S. role in the genesis of the territorial dispute, anything more than quiet, behind-the-scenes American encouragement of Moscow and Tokyo would be counterproductive.

A lone among the major combatants in World War II, Japan and Russia have yet to sign a peace treaty fully normalizing their relations. The immediate cause of this anomalous situation is the inability of Tokyo and Moscow to agree on the ownership of the Kurile Islands, which the Soviet Union seized and annexed in the closing days of the war. The Soviets adopted the position—maintained by their Russian successors—that they did this in agreement with their then ally, the United States, at the February 1945 Yalta Conference, the decisions of which Japan later accepted. In the Russian view, Japan consequently has no basis for disputing Russian sovereignty over the islands. The Japanese, however, argue that even though they ceded the Kuriles in the 1951 San Francisco Peace Treaty, these do not include the four southernmost islands—Etorofu, Kunashiri, Shikotan, and Habomai—which are an extension of nearby Hokkaido and hence part of Japan. Tokyo therefore insists that these Northern Territories are illegally occupied by Russia and must be returned. The United States supports Japan's position, but it did not begin to do so until the 1950s when the intensification of the Cold War made it necessary to bolster Japanese support for the U.S.-Japan alliance.

The Northern Territories issue, as the Japanese call it, is not the only intractable territorial dispute in East Asia, nor is it a particularly explosive one in terms of its potential to spark conflict. The Japanese government has never been willing or able to contest the Russian occupation of the islands by force or the threat of force. It has instead kept the issue at the forefront of its bilateral dealings with Moscow, steadfastly maintaining its claim to the islands and insisting on their return as the *sine qua non* of a peace treaty and improved relations.

A settlement holds attractions for both sides. For the Japanese, it would write *finis* to what they see as the most humiliating legacy of World War II—foreign occupation of part of their national territory. In the view of many, a settlement would also facilitate their access to the rich natural resources of Siberia and the Russian Far East. For the Russians, improved relations with Japan offers the promise of attracting Japanese capital and technology to develop their eastern territories and integrate them with the dynamic East Asian economic region. Geopolitically, a Russo-Japan rapprochement would strengthen the hand of Moscow and Tokyo in dealing with a “rising China,” and support the Great Power ambitions of their political leaders and elites.

THE RECORD OF NEGOTIATIONS

While a deal on the Northern Territories might appear to be in the mutual interest of Russia and Japan, none has been forthcoming. During the Cold War, the issue was framed by Soviet-American rivalry in which Japan was a subordinate player. Stalin refused to discuss the status of the islands but Khrushchev, hoping to weaken the Japanese-American alliance, offered to return the two smallest ones (Shikotan and Habomai) after the conclusion of a peace treaty. The Japanese were tempted, but Washington torpedoed the deal before it could be struck, and Khrushchev withdrew his offer in 1960. The one positive legacy of this episode was the reestablishment of diplomatic ties between Moscow and Tokyo in 1956. Until the late 1980s, however, Soviet-Japanese relations remained frozen. The Soviets dismissed Japan as an American client state and were contemptuous of its lack of military power and political clout in the international arena. Some Soviet observers were impressed by Japan's economic growth

and potential to contribute to Siberia's development. But the Soviet leadership was indifferent to this potential and presented an inflexible face to Tokyo, denying that a territorial dispute even existed. Japan's conservative leaders, for their part, reverted to the position that the return of all four islands was the precondition for a peace treaty and any improvement in relations. Soviet intransigence and belligerence were not entirely unwelcome to conservative Japanese leaders insofar as they provided a rationale for the American alliance and the buildup of the Self Defense Forces. Soviet-Japanese relations became even frostier in the late 1970s and early 1980s as a result of Moscow's displeasure with Japan's endorsement of China's stand against Soviet "hegemonism," and Japanese alarm over the expansion of the Soviet Pacific fleet. Prime Minister Nakasone (1982-87) seized on the enhanced Soviet threat to strengthen military cooperation with the United States and assert Japan's identity as a Great Power.

The advent of Gorbachev marked a sea change in Soviet-Japanese relations. Intrigued by the possibility of using Japan to develop the stagnant and backward economy of the Soviet Far East, Gorbachev signaled flexibility by acknowledging the disputed status of the Northern Territories (or "South Kuriles" as the Soviets called them) and offering to negotiate a settlement. But while Tokyo welcomed this overture, it was suspicious of Gorbachev's intentions and skeptical of his willingness to deliver substantive concessions. The Japanese consequently stuck to their Cold War position that a peace treaty and large-scale Japanese economic assistance would depend on Soviet agreement to return the four disputed islands. This, however, was too much for Moscow hardliners to swallow and it fell to Gorbachev's Russian successor, President Yeltsin, to try to cut a deal with Tokyo. Yeltsin was no less interested in attracting Japanese aid and investment, but Japan's insistence on prior territorial concessions continued to pose a stumbling block inasmuch as such concessions were perceived by Russian nationalists as a humiliating surrender to foreign pressure and blandishments. Yeltsin, his hands tied by domestic resistance, could offer little more than a declaration of his intention to resolve the Northern Territories issue, and negotiations petered out in deadlock in the early 1990s. Stymied in his attempt to achieve a breakthrough with Japan, Yeltsin shifted his focus to developing a "strategic partnership" with China based in part on their common opposition to perceived U.S. "hegemonism."

The launching of a new round of summit meetings in 1997-98 between Yeltsin and Prime Minister Hashimoto again raised hopes that a settlement might be in the offing. The two leaders agreed to work toward the conclusion of a peace treaty by 2000, which many assumed would include a resolution of the Northern Territories issue. The impetus for this apparent breakthrough came partly from common concerns over China's rapidly increasing economic, military, and political power. The Russians had second thoughts about putting all their eggs in China's basket, and the Japanese were worried about Beijing's bellicose and unfriendly posture. Tokyo was also concerned by talk in Washington about forming a "partnership" with Beijing that did not seem to include Japan. The path toward an accommodation between Moscow and Tokyo was smoothed by Hashimoto's dropping of Japan's insistence on Russian territorial concessions as a precondition of Japanese economic assistance. Not a few Russians interpreted this to mean that Japan was willing to underwrite Siberian development without a quid pro quo on the Northern Territories. This, however, was not what Hashimoto had in mind. Rather, he expected an unconditional offer of Japanese largess to elicit Russian flexibility on the Northern Territories. When this flexibility was not forthcoming—Yeltsin refused to discuss territorial concessions—negotiations collapsed amid mutual recriminations and disillusionment.

Yeltsin's and Hashimoto's successors continued the elusive quest for a settlement, since the incentive for trying to reach one remained even though the prospect of cutting a quick deal was now diminished. President Putin aroused a flurry of excitement in 2000-1 by hinting to Prime Minister Mori that he might be willing to revive the 1956 formula—that is, return the two smallest islands in return for a peace treaty. Mori made it clear, however, that Japan was not prepared to accept any arrangement that excluded the other two islands. Prime Minister Koizumi adopted an even tougher line on taking office in 2001, suggesting that progress in expanding Russo-Japanese relations would require a package reversion of all four islands. However, he subsequently adopted a more flexible position. At their January 2003 Moscow summit, Putin and Koizumi agreed to a ten-point “action plan” that called for an across-the-board deepening of bilateral cooperation with the territorial issue being only one item and not necessarily the most important. Indeed, Koizumi has shown greater willingness than many of his predecessors to set aside the Northern Territories problem to seek closer ties with Moscow. One reason is Putin's usefulness as a go-between and possible moderating influence on the volatile and unpredictable North Koreans. Another is the lure of Siberian energy development. Koizumi is particularly interested in a Japanese proposal to construct a 2,500 mile pipeline linking Angarsk oil field near Irkutsk with the Russian port of Nakhodka on the Japan Sea. Should this multibillion-dollar project come to fruition, it would mark a great leap forward in Russo-Japanese economic cooperation, spurring increased Japanese investment in Siberia and the Russian Far East.

THE PROSPECTS FOR PROGRESS

Will economic motives succeed where diplomacy has failed in bringing to closure the territorial dispute between Russia and Japan? Perhaps. Since the 1960s, there has been a compelling logic to the mating of Siberian resources with Japanese capital and technology. It is not implausible to predict that this marriage will now be consummated in the context of growing regional energy demand and tightening supplies. A closer Russo-Japanese partnership, based largely on energy cooperation, would serve U.S. interests in several ways. It would, for example, contribute to the economic development and political stability of the Russian Far East, reducing the potential for a weakening of Moscow's control or an economic breakdown that would almost certainly invite a scramble for concessions and spheres of influence by neighboring powers. In addition to bolstering Putin's domestic authority, stronger Japanese support would give him another card to play in balancing Chinese influence and greater incentive to tailor Russian policy to mesh with American and Japanese objectives in dealing with such issues as the North Korean nuclear crisis. It is also in the U.S. interest that Koizumi and Japan “stand tall” on the international stage, and a rapprochement with Russia would help him do this. The days when Americans could seriously debate whether Japan is a “partner or rival” are long gone. Koizumi is the strongest and most effective Japanese proponent of U.S.-Japan political-military cooperation since Nakasone. Like Nakasone, moreover, he needs foreign policy successes to buttress his campaign for domestic economic reform, which the United States supports.

Caution is, however, in order in assessing the prospects for a Russo-Japanese rapprochement. The Angarsk-Nakhodka pipeline is not yet a done deal. Nor is there any assurance that this or other joint energy projects will lead to a “boom” in Japanese investment forecast by their promoters. Fifteen years of expansive rhetoric by Japanese and Russian leaders about the glowing future of Russo-Japanese economic cooperation is belied by the meager results to date. Japan provides less than 2 percent of total foreign investment in Russia, and its two-way trade with Russia is only about a tenth that of South Korea. The main reason for this situation is the unattractiveness of Siberia and the Russian Far East to Japanese investors. Inadequate infrastructure and legal protection, capricious local political bosses, and the growing influence of Russian organized crime have discouraged all but the boldest Japanese entrepreneurs, and many of them have been burned in business ventures gone awry.

During the 1990s, many Japanese were seized by the vision of a “Japan Sea economic zone” linking northern Japan and the Russian Far East. Enthusiasts pointed to economic complementarities and predicted that growing trade, investment, tourism, and cultural ties would promote mutual understanding and common interests, paving the way for a settlement of the Northern Territories issue. (The 25,000 Russian residents of the disputed islands, many of whom were unhappy over their perceived neglect by Moscow, were the prime targets.) The initiative on the Japanese side came mainly from prefectural governments in Hokkaido and the Japan Sea coast, which hoped that ties with Russia would spur local growth, reducing the developmental gap with eastern and southern Japan. Although the jury is still out on the Japan Sea regional concept, skeptics point out that it has had little effect in softening Russian attitudes on the Northern Territories—which are, in any case, determined in Moscow—or promoting meaningful economic integration between northern Japan and the Russian Far East. Trade has grown, but much of it consists of illegal exchanges of Japanese used cars for Russian shellfish, a trade partly controlled by Russian and Japanese criminal syndicates.

One can anticipate that the Japanese incentive to invest in Russia will increase if Koizumi throws the weight of the Japanese government behind otherwise risky ventures by providing low-interest loans and investment guarantees. At some point, however, he is likely to encounter demands from Japanese irredentists that such backing be linked to tangible progress in recovering the Northern Territories. Many Soviets were wont to dismiss the irredentists as right-wing extremists who command little support among the “peace loving” majority of Japanese. This view is, however, ill founded and, to the extent it survives among Russians, it constitutes a fertile source of misunderstanding. Although Northern Territories activists are relatively few in number, they are well organized and funded and are by no means an inconsequential factor in Japanese electoral politics. Their preoccupation with recovering the islands is, to be sure, not widely shared. Most Japanese do not consider the Northern Territories a front burner issue and attach little importance to the timing or modalities of their return. But this does not mean that they are indifferent to their recovery. Polls reflect a widespread belief that the islands are part of Japan and must be handed back eventually. No Japanese prime minister has dared to challenge this consensus by renouncing or shelving Japan’s territorial claim and, with Japanese nationalism on the rise, none is likely to do so in the future.

A TROUBLED HISTORY

While few Japanese know or care very much about the barren and fog-shrouded islands that comprise the Northern Territories, these unattractive pieces of real estate carry symbolic associations that matter a great deal to many. In addition to being the last foreign-occupied part of their homeland, the islands evoke memories of what the Japanese regard as an unprovoked Russian “stab in the back” at a moment of national vulnerability, which was motivated by little more than revenge and territorial aggrandizement. Japanese images of the “Russo-Japanese War” of August 1905—fleeing Japanese civilians being massacred in Korea and Manchuria, and hundreds of thousands of surrendering Japanese soldiers being marched off to Soviet gulags—have faded over the years, but they have not entirely disappeared. Nor has it been forgotten that the Soviet assault on the southern Kuriles began after Japan’s capitulation on August 15 and continued even after the formal surrender ceremony in Tokyo Bay on September 2. For many if not most Japanese, the recovery of these islands is thus equated with righting a historic wrong and effacing a national humiliation.

The Russians, of course, hold quite different views on the Soviet attack on Japan and seizure of the Kuriles. From their perspective, these actions were part of the “Great Patriotic War” against Nazism and fascism. Although Japan concluded a neutrality pact with the Soviet Union in 1941 and played no part in the European war, it was an ally of Nazi Germany and a virulently anticommunist fascist state. It was, moreover, an expansionist one that threatened the Soviet Far East. Japan had attempted to seize this region in the context of the 1918-21 Siberian Intervention, and its military probes across the Manchurian border resulted in an undeclared Soviet-Japanese war in 1939. Considered from this standpoint, the Soviet strike against Japan in 1945 was a legitimate act of self-defense against a still dangerous fascist aggressor. Moreover, whatever Stalin’s reasons for taking the Kuriles—probably their strategic value in guarding the approaches to the Sea of Okhotsk—Russia’s historical claim to the islands is, in the Russian view, at least as strong as Japan’s.

Clashing Russian and Japanese views on the significance of the war are not counterbalanced by any reservoir of goodwill between the two peoples. Indeed, the events of 1945 intensified a pattern of rivalry and hostility that stretches back into the nineteenth century and forward to the present. In the early 1800s, Japan’s northern borderlands—the Kuriles, Sakhalin, and Hokkaido—formed a tempting target for Russian expansion, since they were undefended and inhabited by non-Japanese hunter-fishers. The Japanese had never occupied these areas or attempted to assert more than the haziest jurisdiction over them. Conflicting territorial claims, punctuated by skirmishes and shows of force, led to an 1875 treaty that gave Sakhalin to Russia and the Kuriles to Japan. This, however, was not an entirely satisfactory arrangement to either side. Nor did it end Russo-Japanese rivalry, which shifted in the 1890s and early 1900s to control over Korea and Manchuria. Their military showdown in the war of 1904-5, fought mainly in Manchuria, resulted in a Japanese victory, but at a heavy cost in Japanese lives and treasure. As part of the peace settlement, Tokyo demanded and got back southern Sakhalin, which it had never been reconciled to giving up in 1875.

The Russo-Japanese war brought only a wary truce between Japan and Russia. The Japanese dug into their newly won sphere of influence in southern Manchuria and prepared for an expected “war of revenge” by the Russians. The latter withdrew to

northern Manchuria and nursed hopes of regaining their lost holdings in the south, particularly the strategic naval base of Port Arthur and South Sakhalin. For about a decade (1907-17), the two sides put aside their enmity to cooperate in developing Manchuria and, as nominal allies in World War I, fighting Germany. But this relative “honeymoon” broke down with the Bolshevik seizure of power in Russia in 1917 and the ensuing Russian civil war. Japan employed the Allied Siberian Intervention as an opportunity to try—unsuccessfully—to set up anticommunist client states in Siberia and the Russian Far East. The rise of Soviet power in the late 1920s and 1930s confronted Japan with an implacable ideological foe and a new threat to its “Manchurian lifeline.” Until 1941, a military strike against the Soviet Far East was high on Japan’s list of strategic options and was favored by many army leaders.

Even if Stalin had not entered the war against Japan in 1945, it is unlikely that postwar Soviet-Japanese relations would have prospered. As Japan’s wartime leaders contemplated defeat in 1944-45, their greatest fear—next to national annihilation—was Japan’s Sovietization. This fear carried over into the postwar period when it was fed by the rise of the Japanese left with pro-Soviet leanings. The threat, as perceived by Japanese conservatives, was less about communism itself than communism harnessed to what they saw as the inveterately hostile purposes of Russia. Conservatives had no such aversion to Mao’s China, which communist or not was still Chinese and hence favorably disposed to Japan—or so the Japanese imagined. Dislike and distrust of “Soviet Russia” survived the decline of the Japanese left in the 1970s, and were not restricted to the conservative elite. The Soviet Union consistently topped the list of “least liked countries” in opinion polls. The Soviets’ negative image was partly inspired by Cold War provocations such as the 1983 downing of a Korean airliner off northern Japan. But it also reflected historical memories and myths about Russian behavior, which had pre-Cold War roots. These negative associations persisted even after the demise of the Soviet Union and the emergence of “democratic Russia,” casting a pall over Russo-Japanese relations to the present.

CONCLUSION

International relations are replete with reversals of supposedly permanent national rivalries and antagonisms. Why should Russo-Japanese relations be any different? After all, the intensity of their mutual hostility does not approach that of other national feuds such as those between Greece and Turkey, and India and Pakistan. Moreover, the logic of Japanese and Russian national interests seems to dictate closer economic and political cooperation. And Putin and Koizumi, both strong and popular leaders, appear determined to move in this direction. The question is thus perhaps not whether Russo-Japanese relations will improve, but how fast and far they can develop before the Northern Territories issue reemerges as a roadblock.

The record of bilateral negotiations on this issue suggests that a territorial settlement may be politically out of reach—the islands are too “loaded” with historical and nationalist baggage to be tradable or expendable to either side. In this sense, the Russians and Japanese are “prisoners of history.” But this does not necessarily mean that they are locked into a permanent stalemate. The Japanese may be unwilling to renounce or shelve their claim to the disputed islands, but having already waited nearly sixty years, they are in no hurry to get them back. There is, in other words, an opportunity to expand Russo-

Japanese cooperation as long as most Japanese continue to see the islands' eventual return as a live proposition. Considered from this angle, Koizumi's main challenge is not to "resolve" the Northern Territories issue, but rather to maintain sufficient progress toward a territorial settlement to prevent Japanese irredentists from taking control of the issue and turning it into a political football. Given the unpromising history of Russo-Japanese relations, and the consequent mutual dislike and distrust of Russians and Japanese, this will not be an easy task. Nor is there much the United States can, or probably should do other than offering quiet encouragement. Washington's historical role in the genesis of the Northern Territories problem and the Soviet attack on Japan in 1945 is not inconsiderable. High profile mediation efforts would invite attention to this role and potentially draw the United States into the cross fire between Japanese and Russian nationalists. This is one relationship the United States should observe from the sidelines.

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SPECIAL ASSESSMENT

OCTOBER 2004

Asia's Bilateral Relations

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Australia-New Zealand Relations: Allies, Friends, Rivals

J I M R O L F E

Executive Summary

- Australia and New Zealand have a unique bilateral relationship. In the economic sphere the two countries are close to forming a single economic market, and on security issues there is an official commitment to harmonize policies and processes to the greatest extent possible.
- Although there is a valid public perception that the two countries work closely on international issues, in private the officials from each country are often critical of the other's policies.
- Since the mid-1980s New Zealand's security policies have diverged from Australia's. Today Australia is almost fully committed to the United States' approach to international security and maintains strong multipurpose armed forces. New Zealand is ambivalent about the United States' security policies and its armed forces are designed primarily for limited regional activities with only a minimal capacity to conduct major conventional operations.
- To the extent that the two countries approach the United States from different perspectives, the possibility of discord or perception of discord always exists.
- The differences between Australia and New Zealand on security matters are marginal and add value to the relationship; both countries cover a wider range of capabilities when working together than would be the case if the countries were simply mirror images of each other. However, this point is not necessarily recognized as a positive trait by either country.
- The United States should value its relationship with each country, understanding that there are differences between the two but that these differences can be useful rather than a source of friction.

INTRODUCTION

Australia and New Zealand have a bilateral relationship as close as can be between any two countries. A common market is being discussed and, for the most part, the countries allow free movement of goods, services, and labor between themselves, and the citizens of either country can live and work freely in the other. The defense relationship, though asymmetric in capacity, is almost as intimate. There is no discrimination between the countries in government procurement: Industrial standards and professional qualifications are almost completely harmonized, and ministers and officials interact substantively and frequently on both domestic and foreign issues.

Yet today's cooperative Australia-New Zealand relationship is relatively new. In the first half of the twentieth century, the two countries did not have a close relationship at all. Even as British colonies each dealt with Britain bilaterally rather than with each other or as part of a group of colonies. In the mid-nineteenth century New Zealand was governed for a period from New South Wales, which is now an Australian state. In 1901 when Australia federated, New Zealand was invited to become part of the new federation. However, New Zealand rejected the idea on the grounds that the benefits would be doubtful and the disadvantages significant. In the words of the Federation Commission: "New Zealand should not sacrifice her independence ... [but] should maintain it under the Political Constitution she at present enjoys...." This assertion by New Zealand of the benefits of independence is still a factor in the bilateral relationship.

During World War I the two countries formed the combined Australian and New Zealand Army Corps from which the term "Anzac" is derived. The term, which is used to describe the bilateral relationship, is still iconic and symbolic of the close relationship between the countries, even though the formal military relationship ended after World War I. In the years leading to World War II both Australia and New Zealand accepted British security guarantees, and each felt equally let down when those guarantees were found to be ineffective. The two countries reacted differently to the Japanese threat however. New Zealand determined that its fate was bound with that of the greater allied struggle and concentrated its army's effort in the Middle East and Italy, and for a short while in the Pacific. Australia decided that defense of the homeland was its first priority and withdrew troops from the Middle East for that purpose. In 1944 the two countries signed the Canberra Pact that, *inter alia*, defined how the countries would work together in the Pacific for their mutual security. Little substantive bilateral activity came from this initiative, but it was the formal forerunner of their present relationship.

The two countries gained slightly different perspectives from World War II. Both accepted that the United States would be their security guarantor, but Australia always took that relationship (and indeed all military relationships) far more seriously than did New Zealand. Until the mid-1960s the bilateral relationship was defined primarily by the common multilateral security alliances the two countries had with the United States under the Australia-New Zealand-United States (ANZUS) Treaty and with Britain through Anzam (Australia and New Zealand and the defense of Malaya) and the Anglo-Malayan Defence Arrangement (now known as the Five Power Defence Arrangements, which include Malaysia and Singapore). Roughly thirty years would pass before a new bilateral defense relationship of any significance would emerge.

The public perception is that the two countries will cooperate to the maximum extent possible in dealing with international issues, even if they do not share a common understanding of day-to-day strategic factors and the most appropriate responses to situations.

Yet that perception is not necessarily shared by officials from either country. Strong language is used in private by each country when discussing the other, and there is no assumption that the countries will choose to coordinate their foreign policies and actions purely for the sake of a common front. One scholar of the subject has noted that senior New Zealand officials in the 1940s and 1950s were “unenthusiastic about close ties with the Australians, and often exasperated by their behavior” [in their approach to international issues of common interest]. More recently in 1998 during the handover of authority from New Zealand to Australia in the Bougainville peace supervision process, New Zealand diplomats noted that “while the Australians are maintaining a superficial dialogue with us, it is being made clear at [the] official level that a substantive input [from us] is not required.” Australian officials continually worry that New Zealand’s foreign and security policy lines will part company with Australia’s. In 1997, according to news agency reports, an Australian ministerial briefing paper described New Zealand’s policies as being a mix of cooperation and competition with Australia and that New Zealand felt the need to differentiate itself from Australia. This is because, in the words of the briefing paper: “New Zealand’s growing dependence on Australia, especially in CER (Closer Economic Relations) and defence—in which New Zealand capacity is weak and declining—underlines the strategic inequality of the relationship.” In 2003 Australia’s High Commissioner to New Zealand noted that New Zealand “risks getting left out in the cold as Canberra strengthens military ties with the United States ... New Zealand has made some decisions about its defence force that are quite different to the direction in which Australia is going.” Despite all this, on most international issues Australia and New Zealand have similar perspectives and share a common policy approach.

WORLD VIEWS: SIMILAR BUT DIVERGING AT THE MARGINS

The two countries have similar although not identical worldviews. Both countries are strong advocates of a plural and democratic society of states. Both accept the virtues of multilateral free trade. Neither country believes it is likely to be attacked militarily; both believe that a stable region is the most effective guarantor of their national and regional security and both have strong programs in which their armed forces work closely with the armed forces of the Pacific to ensure that stability.

There are also some important differences between the countries, especially in their respective analyses of the international strategic environment. The basis for these differences are both historical and geographical. Historically, Australia remembers the attacks on its territory during World War II and is determined that will not happen again. Geographically, Australia feels close to the Asian mainland and worries about spillover effects of Asian instability or major power shifts. New Zealand was not attacked directly in World War II and has Australia between it and continental Asia, giving New Zealand the comfort of distance but without compromising its access to the region. Consequently, Australia places considerably more reliance on military power than New Zealand, which minimizes military options in its international relationships. Note: These assessments are generalizations—Australia does not eschew diplomacy and New Zealand has a long history of using its small armed forces to support its foreign policy goals.

Australia is probably more assertive in its dealings with the Pacific than is New Zealand. Australia has perceived New Zealand as being “soft” on the region because of a desire to remain on close terms with its large Pacific Island population. Since the 2003

intervention in Solomon Islands (led by Australia and supported by New Zealand), both countries now seem prepared to demand results from their bilaterally funded regional aid programs and institutions. Australia is much more closely aligned with U.S. policies on counterterrorism, greater power cooperation, and even preemption since the terrorist attacks of September 2001 and the 2002 Bali bombings. Australia supported the 2003 U.S. invasion of Iraq wholeheartedly; New Zealand was at best equivocal in its support, arguing that the United Nations (UN) should authorize any intervention. Both countries supported Operation Enduring Freedom, the war explicitly aimed at global terrorism. Although both countries have formal status as “major non-Nato allies” of the United States, Australia is routinely acknowledged as an ally and New Zealand merely as a close friend. This differentiation stems from the mid-1980s when New Zealand refused port visits from U.S. nuclear-powered warships. The United States subsequently suspended its security guarantee to New Zealand.

ECONOMIC RELATIONSHIPS: TOWARD A SINGLE MARKET

In 1964 the two countries went beyond their common participation in multilateral security arrangements and established a limited free trade agreement, the New Zealand-Australia Free Trade Agreement (NAFTA). NAFTA was fatally flawed. It had no timetable for the elimination of trade barriers and failed to extend the agreement significantly despite years of negotiation.

In the early 1980s, in the first significant move to deepen the bilateral relationship, the prime ministers of the two countries agreed to scrap NAFTA and start fresh with a new agreement, the Australia New Zealand Closer Economic Relations Trade Agreement (commonly known as CER). CER initially provided for the gradual elimination of tariffs in five years from January 1, 1983, and the removal of all quantitative trade restrictions by 1995. By 1988 CER was seen to be so successful that timetables were brought forward and the agreement was broadened, extended, and generally speeded up. Today CER encompasses completely free trade in goods with no tariff or quantitative restrictions, opens the agreement to include the trade of services, and deepens the agreement by harmonizing non-tariff measures that affect the free flow of goods and services (in customs and quarantine measures, for example). The countries have a single aviation market and are also developing common regulations in areas such as business law, taxation, food standards, and professional services. In January 2004, ministers from the two countries announced plans to pursue a seamless “Single Economic Market” with unified standards and a common regulatory framework.

In the international arena, both countries strongly support the various international trade liberalization regimes of the World Trade Organization (WTO) and the Asia-Pacific Economic Cooperation (APEC) forum and work closely together to promote them. Both are members of the Cairns Group of countries, attempting to bring agricultural trade liberalization to the forefront of WTO negotiations. Despite the closeness of their interests in international trade issues, the two countries do not necessarily coordinate their negotiations with third countries or groupings to form a wider circle of free or preferential trade agreements. They have worked together to promote a CER and Association of Southeast Asian Nations (ASEAN) Free Trade Area relationship, although that is not yet a reality. However, the two countries worked separately to make their own arrangements

with, for example, the United States, China, and Singapore. The reasons for this reside in each country's differing needs and relationships with these third countries. In terms of their respective relationships with China and Singapore, there is little difference between Australia and New Zealand's needs or their approaches. With the United States, however, Australia has negotiated a free trade arrangement while New Zealand has not. Within New Zealand there is some suspicion that the United States would not deal with New Zealand because of its ambivalent support (sometimes explicit nonsupport) for the United States' security policies, and that Australia has not done anything to help New Zealand pursue its own free trade agenda with the United States. Both U.S. and Australian officials assert that New Zealand's needs are different from Australia's and that New Zealand will get in the queue for a free trade arrangement eventually.

SECURITY ISSUES: CLOSE FRIENDS, DIFFERING APPROACHES

The bilateral defense relationship came well after the economic one. Until 1985 the countries had worked together in various multilateral frameworks rather than bilaterally, and there was little systematic effort to harmonize policies, procurement, or processes although many were similar because of the countries' shared history and geostrategic environment. The ANZUS relationship was the most important for each country until a succeeding New Zealand government—composed of politicians whose foreign policy outlooks were shaped by Vietnam rather than World War II and whose constituency opposed nuclear weapons—decided to stop the previously negotiated visit of a U.S. warship on the grounds that it was “nuclear capable.” That action, followed by the introduction in Parliament of the New Zealand Nuclear Free Zone, Arms Control and Disarmament Bill (subsequently enacted into law in 1986), prompted the United States to suspend New Zealand from the status of ally (thus removing the U.S. security guarantee). Additionally, the United States stopped transmitting U.S. intelligence, ceased exercising with the New Zealand armed forces, and imposed conditional logistic support.

Many of these measures remain in place nearly twenty years later, a curiosity given New Zealand's participation in most of the multinational operations valued by the United States. Those sanctions affected Australia as well. Australia could no longer share U.S. sourced intelligence with New Zealand and could not invite New Zealand to multinational training exercises if it also wanted the United States to participate. Publicly at least, Australia declared its willingness to bear these costs in the interest of maintaining its close defense relationship with New Zealand. Privately though, Australian officials resented the extra burden and viewed New Zealand as free riding the alliance responsibilities.

Despite these differences, the two countries' interests were sufficiently close so that in 1991 they would establish the Closer Defence Relations (CDR) process. The purpose of CDR was to formalize the long-standing relationship and to work toward whatever benefits could be obtained from greater cooperation. CDR is not treaty based—that level of formality implies mistrust and is unnecessary for an already close relationship. There are annual meetings of defense ministers and senior officials, regular meetings of policy officials, and working groups dealing with a range of issues such as force development, command and control systems, operational matters, and logistics. When elements of the armed forces are on the same operation, they normally combine their contribution as an Anzac force.

In June 2003 the two countries released a Joint Statement on Closer Defence Relations. The statement asserted that there is no strategic partnership in the region closer than that between Australia and New Zealand and defined five specific outcomes for the relationship:

- A mutual understanding of respective national security policies
- National force development decisions to operate together
- Mutually proficiency in combined and joint operations
- Logistic support and sustainment arrangements to enhance operational effectiveness and
- Regional defense assistance that is coordinated and complementary

In practice this means that within national policy each country attempts to harmonize the detail of its defense policies such as, for example, buying the same equipment in cases where each has a similar need. On the other hand, national security policy directions are now quite different. Australia has a robust policy in which it attempts to produce conventional multipurpose forces capable of operating with the United States in most kinds of military operations. New Zealand has abandoned any pretensions of a general military capability, preferring instead to focus on light forces suitable for the immediate defense of New Zealand and its Pacific interests and to fill low-level roles in multinational operations. Nor does either country necessarily act in ways the other partner would prefer. In 2000 Senator Sandy Macdonald, chairman of Australia's Senate Foreign Affairs, Defence and Trade Legislation Committee, argued that Australia wanted New Zealand to continue to provide support to the Australian Defence Force with New Zealand strike aircraft, which have been based in Australia since 1990. He noted that Australia was concerned at "the cumulative decline in the capabilities of the New Zealand Defence Force, especially relative to the Australian Defence Force." Within a year the New Zealand government announced that its air combat force would be withdrawn from service and that the capability would not be replaced. That decision reinforced Australian views that New Zealand was free riding on defense matters.

Australian commentators acknowledge New Zealand's contributions to regional operations of mutual concern such as in Bougainville (initially led by New Zealand), East Timor (a battalion group), and the Solomon Islands, but they do not count these when they are making judgments about New Zealand's military capabilities. On the other side of the coin, New Zealand commentators typically consider Australia to be overly fixated on its U.S. relationship and acquiring equipment suitable for traditional mid-level military operations, but not necessarily so suitable for more pressing needs related to the immediate region. Australia does not listen to New Zealand concerns at all, and while New Zealand listens to Australia, it makes its own decisions anyway.

The differences between the two countries' views on defense are marginal and mostly focus on the appropriate roles for countries in the region. Australia sees the region in terms of potential threat and responsibilities; New Zealand sees little threat and sees choices rather than responsibilities, although it does acknowledge—in a 2002 Ministerial briefing

paper—"special obligations to Pacific neighbors to assist in maintaining peace, preserving the environment, promoting good governance, and helping achieve economic well-being." None of these tasks require the kind of military capability that Australia considers to be necessary. Australia typically does not see New Zealand's defense policies as appropriate for New Zealand. New Zealanders in turn do not see that their own choices are secured by Australia's robust security policies. In the long term, both countries need to understand that their differing approaches complement each other and are thus a source of strength rather than weakness.

By following their slightly different paths, each country has produced armed forces that fill gaps in the other's capabilities. The strategic entity formed by the two armed forces' close cooperation is, in practice, somewhat greater than just being an aggregate of the individual parts. By avoiding a "mirror image" approach to developing their armed forces, Australia and New Zealand have produced a significant regional capability to respond to a wide range of contingencies, although this has probably resulted more from good luck than good management. The next step would be to recognize security responses (whether in terms of force development or operational deployment) under the banner of Anzac rather than as separate Australian or New Zealand security initiatives. For example, each country could specialize in specific classes of capability that would be provided to the combined Anzac armed forces, or to either country as required. This would reinforce the idea that the two countries form a single strategic entity.

CONCLUSION

For the future, there is discussion of more permanent combined arrangements in the defense field, as there are discussions of an even closer economic relationship, perhaps with a single currency. The countries can get closer in both areas, but very soon they will have to confront questions of sovereignty, a discussion likely to be more sensitive in New Zealand since the smaller country could conceivably be subordinate to Australia's needs and because of New Zealand's historical desire to maintain a certain degree of autonomy and separate identity. In the short term there are unlikely to be any significant moves toward a closer union involving any loss of sovereign responsibilities or rights.

There are several areas in which the two countries could and should work closer with each other. In the South Pacific region they are starting to define a robust vision of how the region should develop. They should be more robust still and assert leadership rather than wait for the island countries to bestow it. The two countries should work closely together for the development of an Asia-Pacific region suited to their interests, and there should be little, if any, policy difference between them in terms of promoting international economic openness. All of these initiatives should be identified as joint initiatives rather than national ones.

The relationship between Australia and New Zealand has many benefits for the United States. Although the two countries do not deal with the United States equally, they generally support the United States' position on most international issues. Between them they provide the United States with a friendly presence and influence in the Oceania region (not a strategically significant region, but nonetheless more sympathetic to the West than not). One or the other and generally both will support the United States on most issues. Specifically in the realm of strategic security policy, the two countries disagree

with each other, and that disagreement lessens New Zealand's utility to the United States. Of course, New Zealand's slight distance in these issues means that it will be able to act in ways that Australia or the United States might not be able to but which would be beneficial to them as well as to New Zealand (such as the mediation process in Bougainville, for example, which occurred in the mid- to late-1990s). It is in the United States' interest to ensure that the two countries maintain their cordial relationship (and there is no reason to believe they will not). Rather than wishing that New Zealand were more like Australia, the United States should deal with New Zealand in the areas that it is primarily interested in and where it can add value, for example, in the area of multilateral relationships such as taking the lead as an interlocutor in WTO negotiations, which is now happening. In this way, the triangular relationship is likely to be of more value to all the partners than it might otherwise be.

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SPECIAL ASSESSMENT

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Asia's Bilateral Relations

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China-Japan Relations: Cooperation Amidst Antagonism

D E N N Y R O Y

Executive Summary

- A thriving economic relationship binds China and Japan together, but security concerns and historical ill will may keep their relationship cool for the foreseeable future.
- Although China has recently shown a more relaxed attitude toward international involvement by the Japan Self Defense Forces (JSDF), Japan's efforts to become a "normal" military and political power suggest future friction between Tokyo and a China that aspires to regional leadership.
- Historically based grievances between the Chinese and Japanese people make it difficult for the two governments to establish a thoroughgoing rapprochement. Some of the events that trigger intensification of bilateral animosity arise spontaneously from Chinese or Japanese society and may force strong reactions from officials who would prefer to keep the relationship stable.
- The Chinese government cites Prime Minister Koizumi Junichiro's annual visits to the Yasukuni Shrine as a major obstacle to improved bilateral relations. Koizumi, however, has indicated he plans to continue visiting the shrine. These visits bolster his domestic political support.
- Both governments appear committed to deepening their economic relationship despite the perennial political difficulties.
- The close relationship with the United States complicates Japan's dealings with China. At times the need to satisfy Washington's perceived expectations of its alliance partner requires Japan to pursue policies that risk offending China and that may therefore endanger Japan's working relationship with Beijing.
- Nevertheless, the underpinnings of the U.S.-Japan security alliance remain strong. China currently expresses little opposition to the alliance except in connection with the defense of Taiwan. This is partly because Sino-U.S. relations are relatively favorable. Japan remains strongly committed to the alliance.

Conflicting forces characterize China-Japan relations. On one hand, the economic relationship is robust and getting stronger. Each country sees the other as an important part of its own plans for economic growth. On the other hand, bilateral security relations, while stable at the moment, present the longer-term problem of possible Japanese reactions to China's continued economic and military growth and likely aspiration to the role of Asia's premier political leader. Furthermore, the two societies harbor mutual ill will stemming from historical experience. The last century has generated both Japanese pride that the country modernized ahead of China and Chinese anger at Japanese aggression.

There is potential for substantial improvement in the bilateral relationship during this decade. Beijing is exhibiting increased confidence that the People's Republic of China (PRC) can best achieve its goals through cooperation, responsibility, and constructive leadership—in other words, by working within the international system rather than against it, and by persuading other countries that China's national objectives are consistent with theirs. The manifestations of this orientation in Chinese diplomacy include Chinese leaders speaking like representatives of a great power rather than aggrieved victims, less official complaining about U.S. "hegemony," greater support for multilateralism, and an omni-directional peace offensive. With Sino-U.S. relations much improved since the beginning of the Bush administration, Chinese officials have called this a period of "strategic opportunity" in which China can concentrate on economic development within a relatively benign external environment.

Recently, subtle changes in China's approach toward Japan are consistent with this revised general orientation. China still hopes "Japan's foreign policy will come to a historic turn of 'attaching importance to China,' turning from 'following the United States.'" In more blunt language, this refers to weakening Japan's alliance with the United States and persuading Tokyo to bandwagon with China. The current emphasis, however, is on achieving this and other Chinese goals for Sino-Japan relations by emphasizing the mutual political and (especially) economic benefits of a closer relationship. Beijing's current official guideline for Sino-Japan relations is "taking history as a mirror while looking toward the future," which apparently means the way is clear for improved bilateral relations if Japan will make the modest concession of avoiding behavior that offends Chinese sensibilities. China took note of the outpouring of guilt fatigue in Japan after then-President Jiang Zemin scolded his hosts about the history issue during a visit to Japan in 1998 and has eased off slightly on the remilitarism issue. Reaction from the Chinese Ministry of Foreign Affairs (MOFA) to Tokyo's decision to deploy military personnel to Iraq was mild compared to past instances of increased activity by the JSDF. Recent statements by Chinese leaders have said the Japanese people were among the victims of Japan's fascist government of the Pacific War era.

In an ironic coincidence, China's willingness to entertain the possibility of laying aside its Pacific War grudge in the interest of improving bilateral relations comes at the very time Tokyo is pushing for serious and permanent steps toward making Japan a "normal" military power. Tokyo has made clear its desire for a permanent seat on the United Nations (UN) Security Council. The Japanese military is increasingly active beyond Japan's borders. Japan sent naval vessels to the Indian Ocean beginning in late 2001 to help support U.S. forces engaged in combat in Afghanistan. In early 2004 Japan began sending a contingent of several hundred soldiers to Iraq to participate in "reconstruction and humanitarian aid." Japan's armed forces do not operate independently overseas and are authorized only to accept ostensibly noncombat

assignments, but Japan is now a regular contributor to UN peacekeeping efforts. There is broad support in Japanese politics for a review of Article 9 of the Japanese constitution, which literally forbids Japan from maintaining armed forces and abrogates “the right of belligerency of the state.” It is highly likely that, at a minimum, Japan’s leaders will secure a reinterpretation of Article 9 to lift a self-imposed ban on Japan’s participation in “collective self-defense.” Such a step, the proponents of which include Koizumi, would strengthen the U.S.-Japan alliance by allowing Japanese forces to fight alongside U.S. forces in a conflict that did not directly threaten Japan, or help defend U.S. forces in the region if they came under attack. Koizumi has also pushed for recognition of the euphemistically titled JSDF as a regular national military, which would constitute a psychological breakaway from Article 9’s stipulation that “land, sea, and air forces, as well as other war potential, will never be maintained.”

SECURITY RELATIONS

The Chinese and Japanese governments view each other as possible future military rivals, and each sees threatening trends and behavior in the other. China fears and opposes both the removal of postwar restrictions on the Japanese armed forces and any inroads by “militarist” attitudes in Japanese government or society. Beijing has protested each significant increase in the funding, capabilities, and activities of the JSDF. The Chinese have also argued for decades that Japan is vulnerable to a revival of an assertive, military-oriented foreign policy reminiscent of the Pacific War era because the Japanese people have yet to take full responsibility for their aggressions and atrocities against the Chinese and other Asians during the last century. Beijing is therefore highly sensitive to news from Japan that seems to confirm Chinese suspicions of latent Japanese militarism, including the “sanitization” of Japanese history textbooks, the denial of Japanese wartime misbehavior by prominent Japanese right-wingers, the refusal of Japanese courts to award compensation to Chinese plaintiffs who suffered harm during the war, and visits by the Japanese prime minister to the Yasukuni Shrine, which honors all deceased Japanese military, including those who perpetrated war crimes against Chinese.

Similarly, Japan worries about China’s growing military power and how China intends to use it. Tokyo expresses official concern about the steady growth of Chinese defense spending, which has risen by at least 10 percent a year for the last decade. Japan also complains about the encroachment of Chinese ships into the waters within Japan’s exclusive economic zone without the required prior notification. After eight such incursions in 2003, Japanese officials reported eleven more in the first three months of 2004. These Chinese ships are presumably searching for exploitable ocean resources or mapping the seabed to create charts for use by Chinese submarines.

ECONOMIC RELATIONS

Bilateral trade is increasing rapidly, and may reach US\$130 billion annually by 2005. Japan now buys more from China than from the United States. Both governments appear to agree that since mutual economic benefit is the most salient aspect of the bilateral relationship, it should not be sacrificed to security concerns or political disputes. Koizumi has repeatedly said he sees a growing China “not as a threat, but rather as an opportunity for

Japan.” In a similar vein, the Chinese MOFA in early 2004 noted that despite several specific problems in the relationship, “the mainstream of China-Japan relations remains good and bilateral exchanges in various fields have scored tremendous achievements.”

If the sense exists that “China’s rise” is clouding the economic relationship, this may be most visible in the area of Japanese economic aid to China. Some Japanese commentators argue that the time has come to consider halting Japanese economic assistance for both economic and political reasons. The economic reason is that China is no longer a poor, struggling country. China has not only become one of the world’s largest economies, it also doles out economic aid of its own to buy influence and favor with foreign governments. The political reason is that Tokyo’s largesse is not preventing what the Japanese consider to be “bad Chinese behavior.” For more than a decade Beijing has increased its military spending at a rate exceeding China’s economic growth while disregarding complaints from Tokyo. The Japanese government’s revised Official Development Assistance (ODA) guidelines of 2003 stipulated that aid might be jeopardized if a potential recipient demonstrated excessive military spending or produced weapons of mass destruction. Additional reasons are Japanese displeasure with Chinese ship incursions in territorial water and continued Chinese challenges to Japanese administration of the Senkaku/Diaoyutai Islands. Chinese Foreign Ministry spokesman Kong Quan recently called Japanese loans “a symbol of Japanese friendly policy toward China” that “play an active role in promoting Sino-Japanese ties on the basis of equality and mutual benefit.” Kong warned Tokyo against linking loans with the perceived “China threat.”

Nevertheless, Japan’s Foreign Ministry announced in March 2004 that it would reduce the annual amount loaned to China to 96.7 billion yen (US\$872 million), a decrease of 20 percent. This marked the third consecutive year Japan made cuts to the loans, and the first time in fourteen years the amount dropped below 100 billion yen. Formerly the top recipient of Japanese loans, China now ranks third behind India and Indonesia.

KOIZUMI FINDS NO PEACE IN SHRINE VISITS

Koizumi’s visits to the Yasukuni Shrine have become a major political irritant in the Japan-China relationship. To put additional pressure on Koizumi to cease the visits, Chinese leaders have emphasized that in order for Sino-Japan relations to progress, high-level bilateral meetings are necessary, and Koizumi will not be welcome in China until he stops going to Yasukuni. But Koizumi visited the shrine again in January 2004, his fourth visit since becoming prime minister in 2001, and suggested he would continue this practice annually. The visits help Koizumi maintain the domestic political support of the right wing of the Liberal Democratic Party. Koizumi maintains that he goes to Yasukuni to pray for peace and that “no country interferes in other countries’ respect for history and tradition.” China will have none of this. Vice-President Zeng Qinghong, among other high-level Chinese leaders, said Koizumi’s January 2004 visit “seriously hurt the feelings of the Chinese people...and undermined the political basis of Sino-Japanese relations.” Premier Wen Jiabao said “the fact that some leaders of Japan have been repeatedly visiting the Yasukuni Shrine” is the source of “the main problems in China-Japan relations” (i.e., more serious than expansion of Japan’s military or Japanese support for Taiwan). Significantly, however, the Chinese are not holding a deepening of Sino-Japanese economic ties hostage to the Yasukuni issue. An April 2004 *People’s Daily* editorial, for example, asserted, “the development of Sino-Japanese relations is a historical tide independent of the will of some individual leaders such as Koizumi. It is a historical trend of objective necessity.”

RECENT OUTBURSTS OF ANTI-JAPAN SENTIMENT IN CHINA

The societies of China and Japan have a persistent undercurrent of strong, largely negative feelings toward each other. Japanese generally feel respect for the accomplishments of ancient China but believe that Japan has far outclassed China in modern times. They understand that China has a strong sense of victimization by Pacific War-era Japan, but they are increasingly tired of China “playing the history card” to gain concessions from Japan, especially given China’s progress in economic development. For their part, Chinese see their country as the natural leader of the region based on its size and the historical preeminence of Chinese civilization. They bristle at perceived Japanese disrespect for China and insufficient penitence for Japan’s past sins. Most Chinese are clearly not ready to accept Japan as a “normal” country. Circumstances periodically raise the intensity of public sentiment about the relationship in one or both countries, sometimes generating unwelcome pressure on the national leadership.

Along with Koizumi’s war shrine visits, several recent and apparently unpremeditated incidents revealed, and perhaps deepened, the reservoir of antipathy toward Japan in Chinese society, while at the same time reaffirming among Japanese observers a sense that Chinese are excessively hostile.

In August 2003, construction workers in the city of Qiqihar in Heilongjiang Province unearthed canisters of mustard gas buried during the Pacific War by the Japanese army. Leaks from the canisters killed one person and injured forty others. This led to an outpouring of Chinese anger over the suffering inflicted on China’s people by Imperial Japan. A group of Chinese activists collected a million signatures on a petition demanding Japanese compensation and delivered the petition to the Japanese Embassy in Beijing in September. Chief Cabinet Secretary Fukuda Yasuo raised the familiar objection that the issue of Japanese compensation to China based on Pacific War misdeeds was closed. It took over two months for Tokyo and Beijing to agree on a settlement payout, during which time Japan’s image among the Chinese public deteriorated further.

In September 2003, Chinese media reported police were investigating an incident involving Japanese tourists. Some 380 visiting Japanese businessmen, employees of a construction company based in Osaka, reportedly engaged in a three-day orgy with several hundred Chinese prostitutes in a luxury hotel in Zhuhai. The episode coincided with the anniversary of the 1931 Mukden Incident, which Japan manufactured as a pretext to extend and consolidate its control of the Northeastern Chinese territory of Manchuria. Historically, the Mukden Incident marks the beginning of the Pacific War, which ushered in a period of Chinese suffering, losses, and destruction due to the Japanese invasion. The Zhuhai orgy drew widespread public attention and provoked strong anti-Japanese sentiment in China. A Foreign Ministry official said the “odious” incident “harmed the feelings of Chinese people and also seriously harmed Japan’s international image.”

Another incident soon followed. At the end of October, four Japanese exchange students and a Japanese professor participating in a cultural festival at Northwest China University in Xian performed a ribald dance while wearing red brassieres over their T-shirts and fake paper genitalia. The Chinese spectators deemed the act obscene and humiliating. Chinese students assaulted two Japanese students in their dormitory, prompting Chinese police to move all the foreign students out of the dormitory and into a hotel. As many as 1,000 Chinese students protested on the campus and then marched downtown. The Chinese MOFA called in a Japanese embassy official to protest, and the students composed a public apology.

In December 2003, Japanese auto maker Toyota apologized for and discontinued two advertisements that drew heated complaints after appearing in the Chinese magazine *Auto*

Fan. The first ad, which was for the Toyota Prado (unfortunately transliterated in Chinese as “Badao,” which means “domineering”), depicted two traditional Chinese carved-stone lions bowing and saluting a passing Prado, with a caption reading, “You cannot but respect Badao.” Not only are the stone lions a common symbol of China, but some Chinese saw an allusion to the lions at the entrance of the Marco Polo Bridge, the site where Japan launched its invasion of China proper in 1937. The other ad showed a Toyota Land Cruiser towing a broken-down Chinese military truck through mountainous country. The reaction of Chinese readers demonstrated their sensitivity to intimations of Japanese superiority and the rawness of Pacific War wounds inflicted almost sixty years ago.

ANOTHER FLARE-UP OVER THE DISPUTED ISLANDS

The unresolved issue of the Senkaku/Diaoyutai Islands, which both Japan and China claim to own, periodically causes a minor crisis in Sino-Japan relations. Typically the flare-up is triggered by ostensibly private activists, whose actions force both governments to reassert their conflicting claims. Chinese activists made four attempts in 2003 and early 2004 at a symbolic landing on the islands, which lie in the East China Sea roughly halfway between Okinawa and the Chinese coastal city of Fuzhou. In March 2004, seven Chinese activists successfully reached Uotsuri Island. Japanese police flew in from Okinawa by helicopter and arrested the activists for violation of Japanese immigration laws—the first time Japan had arrested Chinese nationals in the disputed territory. Koizumi said of the arrest, “It was unusual, but it is natural for Japan, a law-governed state, to handle them according to our law.” Japanese officials expressed hope the incident would not harm Sino-Japanese relations. Chinese Foreign Ministry spokesman Kong Quan, however, said of the detention of the activists, “We think this is an illegal action which breaks international law, and moreover it is a serious provocation against China's sovereignty and territory and Chinese citizens' human rights.” Chinese protesters tore up and burned Japanese flags in front of the Japanese Embassy in Beijing. From Japan's standpoint, Tokyo made a concession in deporting the activists back to China rather than prosecuting them as criminals in Japan, concession for which the Chinese seemed unappreciative.

The Japanese government angered China by leasing three of the islands from a private Japanese citizen in April 2002. In April 2004, the lease was extended. China expressed its displeasure through the withdrawal of Vice Foreign Minister Wang Yi from a planned meeting with Japanese ambassador Koreshige Anami in Beijing.

In April 2004, the Chinese government apparently squelched another planned excursion to the islands by the same group, the China Federation for Defending Diaoyu Islands, which organized the successful landing the previous month. This indicates a desire to contain the damage to bilateral relations, consistent with past Senkaku/Diaoyutai incidents. Nevertheless, after the spate of events in 2003 and early 2004 that fanned anti-Japanese sentiment in China, Beijing risked a public nationalist backlash if it failed to strongly condemn the arrests of the activists, whom many Chinese view as heroic patriots.

THE TAIWAN ISSUE: A POTENTIAL SPOILER

The Senkaku/Diaoyutai Islands question appears manageable, but the Taiwan question might not be. In the medium term, China's largest single Japan-related strategic concern is the possibility of Japanese participation in the defense of Taiwan against the People's Liberation Army should China decide to use military force to prevent Taiwan independence. China has vigilantly monitored Japan's policy for indications, either explicit or implicit, of Japanese support for the Taipei government. Beijing maintains that Japan's avowal of the One China policy should preclude such support. Taiwan has significant support among Japanese elites. About one third of Diet members have reportedly visited Taiwan during the last three years. Consequently, Japan occasionally makes gestures supportive of Taiwan that draw Chinese condemnation. At the end of 2003, for example, Mori Yoshiro became the second former Japanese prime minister to visit Taiwan. Chinese Foreign Ministry spokesman Liu Jianchao expressed Beijing's "deep regret and strong dissatisfaction." But Tokyo balances such gestures with mollifying policies such the December 2003 visit of the Japanese quasi-ambassador to Taiwan to a top Taiwan presidential aide to express Japan's disapproval of the March 2004 referenda in Taiwan. Beijing had decried the referenda as a step toward Taiwan independence.

While the Chinese have not made it a front-burner issue in recent months, Japanese support for Taiwan has the potential to ruin even the successful aspects of the bilateral relationship, especially economic ties. The Japanese defense bureaucracy expects that Japan would at a minimum allow the U.S. military to operate out of its bases in the event of a Sino-U.S. clash over Taiwan. Many in the Japan Defense Agency would also favor stronger support, such as providing logistical assistance to U.S. forces or even Japanese units participating in combat, in order to preserve the U.S.-Japan alliance. In this case, a war in the Taiwan Strait would be as disastrous for Sino-Japan relations as for Sino-U.S. relations.

CONCLUSION

The impact of the U.S.-Japan alliance on Sino-Japanese relations is complex. The value Tokyo places on the alliance has required Japan to maintain a balancing act, attempting to satisfy the United States that Japan is a worthy partner while simultaneously preserving stable relations with China. This is relatively easy in periods when China does not see its core interests directly threatened by U.S. policies in Asia, but harder when U.S.-China relations are poor. Policy coordination with the United States occasionally forces Japan to take steps that offend China. It does not necessarily follow, however, that a more independent Japan would have better relations with China. As a U.S. ally, Japan (and especially a militarily invigorated Japan) can help uphold a U.S.-sponsored agenda that does not necessarily honor China's preferences particularly on the issue of Taiwan. Removal of the alliance and its assurance of U.S. protection could impel Japan to

bandwagon with China, the ideal scenario from China's standpoint. But it might alternatively stimulate full Japanese rearmament, including the deployment of nuclear weapons and a more assertive Japanese foreign policy. For Beijing this outcome would be far worse than the status quo. Thus the Chinese are generally ambivalent about the U.S.-Japan alliance. The mainstream Chinese view is that although they oppose in principle "Cold War-era" alliances and U.S. military bases in Asia, they can tolerate the U.S.-Japan alliance to the extent it is not employed in ways that threaten Chinese interests.

Presently, the environment is favorable to a continuation of the U.S.-Japan alliance. In recent months, Chinese strategic analysts have taken the position that they are not opposed to the alliance as long as it does not interfere with the PRC's efforts to bring about unification with Taiwan. For its part, Japan continues to see the alliance as its best possible security strategy and remains committed to keeping it healthy. This goes a long way in explaining why Koizumi's government opted to send Japanese troops to Iraq despite the initially heavy opposition to this policy among the Japanese public.

While taking care to maintain the American commitment to the U.S.-Japan alliance, the Japanese government has gone to considerable lengths to maintain a stable and constructive relationship with China, seeing this as an important Japanese interest. Nevertheless, in what may be at least partly indicative of a generational shift in Japan, the Koizumi government has shown a greater willingness than some of its predecessors to risk offending Beijing. China is presently relatively tolerant of the modest increase in Japanese assertiveness, which appears less threatening in the current climate of favorable Sino-U.S. relations. Moreover, the burgeoning bilateral economic relationship provides a stabilizing bond. But for the foreseeable future, the relationship will remain a contest between cooperation and antagonism.



Asia-Pacific Center for Security Studies



SPECIAL ASSESSMENT

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Asia's Bilateral Relations

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China-South Korea Relations: Elder Brother Wins Over Younger Brother

D E N N Y R O Y

Executive Summary

- South Koreans are increasingly interested in The People's Republic of China (PRC), seeing it as the country that will have the most important impact on the future of Korea.
- Many South Koreans welcome increased Chinese influence in the region and on the Korean Peninsula as a counter to what they perceive as excessive American influence.
- Bilateral economic ties are strong and growing rapidly. While South Korea now enjoys a trade surplus with China, continued PRC economic development will pose stiff challenges to Korean prosperity in the future.
- Beijing has been largely successful in persuading South Koreans not to consider China a "threat" either economically or strategically.
- China-South Korea relations are improving as U.S.-Korea relations deteriorate. South Korea and China will eventually face potentially divisive political questions, such as the nature and timing of Korean reunification, the disposition of territory and people in parts of Manchuria, and the amount of deference Seoul is expected to show to Beijing. The logical conclusion of these trends would be Korean accommodation of China and the end of the U.S.-Korea alliance.
- Nevertheless, the seeds of potential China-South Korea tensions are already visible and may countervail present trends.

Motivated by both economic and strategic interests, China has forged a cordial relationship with the Republic of Korea (ROK) that belies the latter's status as a key U.S. ally. Obstacles to further progress could become stronger in the medium term. Some Korean security analysts believe the People's Republic of China's (PRC) growing power poses potential difficulties for Koreans in the future, including possible constraints on Korea's autonomy and challenges to the U.S.-South Korea relationship. In the near term, however, the relationship appears robust and ripe for further development, a macrocosm of the burgeoning ROK-PRC trading relationship.

Beijing's Korean policy shifted visibly through the 1990s, exhibiting friendlier and closer ties with Seoul and decreasing support for Pyongyang. This reflected a pragmatic assessment that Beijing's interests favored cultivating a relationship with the government that would dominate Korean affairs in the future and had much to offer China economically in the present. China has maintained an intravenous flow of aid to North Korea, but only to prevent a strategic liability from crumbling into a strategic disaster. China supplies an estimated 70 percent of North Korea's energy and one-third of its food. Ironically, although North Korea is the socialist comrade and the only state with which China has a formal alliance while South Korea is host to American military bases, in important ways it is Seoul that presently plays the role of partner to China, while Pyongyang is the "troublemaker."

The Korean public has long held considerable respect for Chinese culture and civilization, recognizing China as an "elder brother" that has greatly influenced the development of Korean society. But recently, interest in China among South Koreans has exploded, a phenomenon the South Korean media call "China fever." Most Koreans believe that in the long term, China is a more important country to them than the United States. A sizeable segment of the population, particularly younger Koreans, resent what they see as a pattern of self-interest pressure from the U.S. government. They welcome the idea of a stronger China that can counteract American influence. As Yonsei University international affairs scholar Lee Jung Hoon said in a 2003 article in the *New York Times*, "China is looming large as an alternative to the United States." Among Koreans who study foreign languages, Chinese has surpassed Japanese in popularity. Subway trains in Seoul now make announcements in Chinese as well as Korean and English. China is the country most visited by Korean travelers, and about one-third of the foreign students studying in China are Koreans.

GROWING TIES

The two million people who travel between China and South Korea every year follow paths blazed by the top leaders of both countries. Jiang Zemin, Zhu Rongji, Li Peng, Hu Jintao, and Zeng Qinghong have visited the ROK, while South Korea's last four presidents (Roh Tae Woo, Kim Young Sam, Kim Dae Jung, and Roh Moo Hyun) have been to China. Current ROK President Roh visited Beijing for a summit meeting with Chinese President Hu in early July 2004. Bilateral military ties are developing more slowly than diplomatic interchanges, mainly because of China's sensitivity to North Korean security concerns. ROK Defense Minister Cho Seong Tae visited China in 1999, and PRC Defense Minister Chi Haotian reciprocated in 2000. Korean warships made a port call in China in 2001, and Chinese ships docked in Korea in 2002.

Along with strategic considerations (particularly in the case of China), the relationship is built on economic exchange. Since China and South Korea normalized their relations in 1992, bilateral trade has grown at the rate of about 20 percent annually. Membership of both countries in the World Trade Organization (WTO) is expected to accelerate the trend. By some estimates, ROK-PRC trade could reach \$100 billion by 2008. China has become South Korea's top trading partner, the greatest buyer of South Korean exports, and the largest destination for South Koreans' foreign direct investment. South Korea's relatively high level of technology and China's cheap labor and resources and efficient manufacturing industries contribute toward a high degree of economic complementarity between the two countries. During Roh's visit to Beijing in 2003, the two governments showed particular interest in promoting cooperation in the information technology, biotechnology, and energy sectors through a Korea-China Industrial Cooperation Committee.

Over the last decade, the character of both China's exports to South Korea and South Korean exports to China has moved qualitatively from the low end (primary products) toward the high end (industrial or technology-intensive goods). China's main imports from Korea include mobile phones, automobiles and auto parts, computers and microchips, refined fuels, engineered chemicals, and steel. South Korea buys Chinese clothing, electronic consumer goods, microchips, coal, chemicals, and aluminum.

The ROK is China's fifth-largest foreign investor. South Korean investment in China currently exceeds \$2 billion per year and is growing rapidly. Initially concentrated in the provinces and major cities close to Korea (Shandong, Beijing, Tianjin, Liaoning, and Heilongjiang), Korean investment is now spread throughout China, including the relatively underdeveloped west. This investment helps speed development in areas that Beijing fears are vulnerable to resentment because they are not as prosperous as Shanghai or Beijing. Korean enterprises employ hundreds of thousands of Chinese workers.

The growth of China's economy and South Korea's increased economic interdependence with China has a mixed impact on ROK citizens. As with other Asia-Pacific countries, China's economy presents Koreans with both threats and opportunities. On the positive side, the rise of a viable Chinese market helps Korean producers diversify. In 2001 and 2002, for example, while the Japanese and U.S. economies were in recession, Korean suppliers continued to reap profits from business with China. Korea has a double-digit trade surplus with China. Largely based on China's imports of Korean-made intermediate capital goods, Korea's surplus will last until China's domestic capital goods industries grow stronger. Certain Korean firms are especially well-positioned to benefit from China's economic boom. The Korean-made Kia Accent has been one of the best-selling cars in China. South Korea's shipbuilding industry is backlogged with Chinese demand for oil and natural gas tankers.

There are also, of course, downsides for the ROK. South Koreans share with other countries the fear that competing Chinese firms could take over the markets that now buy Korean exports and Chinese imports could bankrupt Korean companies that sell to the Korean domestic market. Chinese textile exports, for example, have badly hurt the Korean textile industry. The ROK business community also worries that relatively low labor and overhead costs in China could lead to a "hollowing out" of local industry as factories and offices relocate to China. The South Korean Small and Medium Business Administration recently reported that 40 percent of small- and medium-sized South Korean firms have moved or plan to move overseas, mostly to China.

The rapid growth of China's economy has created the danger of "overheating" (high rates of inflation) and prompted China's leaders to find ways to slow growth to a more sustainable level. Any slowing of China's appetite for imports will cut directly into South Korea's prosperity. China's booming demand for energy and raw materials is driving up the international market prices that Koreans pay for these commodities. China's large size and multiple sources of markets and suppliers tend to give Chinese firms a bargaining advantage relative to firms from smaller countries such as South Korea. With continued rapid development, China's advantage gets larger.

Many Chinese industries will begin to outperform their Korean counterparts within a decade. Korea's automobile makers, for instance, are enjoying thriving sales in China now but face declining profits and job losses as Chinese car production rises. Chinese investors are buying certain high-technology Korean companies, which will speed up China's erosion of part of Korea's qualitative edge.

Statements by Korean leaders indicate South Korea had hoped to make itself the economic hub of East Asia. It now appears the Koreans will not have the chance to attain this goal before China snatches it away. South Korea's port of Pusan, for example, formerly the world's third busiest, was recently surpassed by the Chinese ports of Shanghai and Shenzhen.

Even now, the trading relationship is not without its share of disputes. A case in point is the "garlic war" of 2002. When South Korean garlic farmers (numerous and politically powerful given the importance of garlic in the Korean diet) complained about competition from rising imports of Chinese garlic, Seoul imposed a tariff of nearly 300 percent. China retaliated by banning imports of two important South Korean products: cellular telephones and polyethylene. Some Koreans saw ominous overtones in the seemingly disproportionate Chinese response. Lee Tai Hwan, a senior researcher at the Sejong Institute in Seoul, argued in an *International Herald Tribune* report that the Chinese "overreacted to Korean measures intentionally" because "they want to show who's boss. They want to teach us a lesson."

Clearly, South Korea will face challenges as it attempts to maintain the level of benefit it now enjoys from the bilateral economic relationship.

SOLIDARITY REGARDING NORTH KOREA

The North Korean nuclear crisis has altered relationships among the four parties most directly involved (the two Koreas, the United States, and China) in several ways. As far as ROK-PRC relations are concerned, the main significance of the crisis has been the convergence of these two countries' policies. The positions of Seoul and Beijing are more similar than the positions of Seoul and Washington. In broad terms, Seoul and Beijing share similar objectives: preventing military conflict on the Peninsula, including an attack by either U.S. or North Korean forces; avoiding a collapse of the North Korean regime; opposing economic sanctions against Pyongyang; encouraging Kim's regime to carry out economic reforms; and inducing North Korea to abandon its nuclear weapons program. Both countries condemned North Korea for withdrawing from the International Atomic Energy Agency (IAEA) safeguards program and the 1994 Agreed Framework. More importantly, however, the Chinese and South Korean governments both appear willing to live with North Korean nuclear capability if this is necessary to avoid war or a "hard

landing” for the Kim Jong Il regime. Chinese and South Korean officials and analysts have argued that the U.S. demand for “complete, verifiable, irreversible dismantling” of the North Korean nuclear weapons program while offering North Korea minimal concessions has no realistic chance of success. Seoul and Beijing reportedly joined together in prodding Washington to moderate the U.S. position.

But Seoul and Beijing’s policies toward North Korea may eventually diverge. The South Korean public is strongly committed to ultimate reunification with the North, but a united Korea does not necessarily suit China’s interests. South Koreans also believe North Korea is ultimately their business and are at heart resentful of foreigners attempting to take the leading role in inter-Korean affairs. The divisions between the ROK and PRC are not salient at the moment, but could become so in the near future.

BILATERAL DISPUTES

Bilateral disputes between China and South Korea exist, but are for now manageable. Technical issues are relatively the easiest to manage. An example is the problem of the “yellow sand” that plagues Korea every spring as a result of spreading desertification in northeastern China. Dust blown over Korea from China by springtime winds causes haze and even forces schools in Seoul to close. The two governments have agreed to monitor the dust storms, and some South Korean businesses are sponsoring reforestation projects in China.

Several other issues with nationalist overtones pose potentially serious challenges to smooth bilateral relations.

Taiwan and Tibet remain lingering points of bilateral friction, particularly given the ROK’s pluralist democracy and the PRC’s controversial definition of Chinese “sovereignty.” Although Seoul severed diplomatic relations with Taipei in 1992 (to Taiwan’s great disappointment) to clear the way for normal relations with the PRC, many Koreans naturally respect Taiwan for its hard-won democracy and rags-to-riches prosperity. To many South Koreans, their national story of economic growth and political liberalization echoes that of Taiwan. Chinese officials note with displeasure that scholars and private groups in South Korea organize discussions of Taiwan that the Chinese interpret as supportive of Taiwan’s government. South Korea also has a Buddhist community estimated at 12 million that has campaigned for a visit by the Dalai Lama, the exiled Tibetan Buddhist leader whom Beijing considers an advocate of Tibet’s separation from the PRC. Despite this community’s criticism that Seoul is bowing to Chinese pressure, the South Korean government has refused to grant him an entry visa.

Although perhaps not as intense as the feelings between China and Japan, China and South Korea have a “history problem” with political ramifications. Whether some areas in the region covering northern Korea and neighboring southern Manchuria are ultimately Chinese or Korean is a simmering bilateral dispute. The ancient Kokuryo Dynasty (which lasted until AD 668) straddled the present-day border between North Korea and China’s Manchurian territory. Many Koreans see in Kokuryo the origins of the Korean nation-state. Some Koreans believe, however, that China has recently moved to build a case for asserting that Kokuryo was Chinese rather than Korean, founded by a Chinese minority people who had no sense of Korean identity. South Korean nationalist groups see this sinicization of Kokuryo as the agenda of the Northeast Asia Project begun by the Chinese

Academy of Social Sciences in 2002. When North Korea applied with the United Nations (UN) to register the tomb murals in Kokuryo ruins on the World Heritage List, China followed with a similar application in 2003 on behalf of Kokuryo tomb murals on China's side of the border, deepening Korean suspicions. Many Koreans assert that China's recent interest in revising the history of Kokuryo is a preemptive move to weaken claims on Manchurian territory that a future united Korea might make.

The North Korean refugee issue, which combines Korean nationalism with the South Korean interest in civil and political human rights, periodically creates bilateral stress. In a series of incidents in 2002, the Chinese authorities earned opprobrium from the international community, and especially from South Korea, for callous treatment of North Korean asylum-seekers. In one case, Chinese police entered the premises of the Japanese consulate in Shenyang to drag out five would-be North Korean defectors. Chinese complain that South Korean churches and nongovernment organizations are abusing their privileges in China by helping North Koreans defect to the south. Some of these efforts have contributed to international embarrassment for the Chinese government, which gets negative publicity for returning would-be defectors to North Korea. Conversely, some South Koreans have severely criticized the Roh government for failing to win the release of South Korean nationals convicted in China of trying to help North Koreans defect.

Beijing resents South Koreans intimating jurisdiction over PRC citizens of Korean ancestry in China's northeastern provinces. Some South Korean politicians have called for granting special rights of residency in Korea to Korean-Chinese. A group of South Korean parliamentarians recently demanded permission to inspect ethnic Korean communities in Manchuria. Beijing turned them down. The Chinese worry not only about pan-Korean nationalism compromising PRC rule in parts of Manchuria, but also that a Korean challenge to the Chinese empire could incite restive behavior among other minority groups within the PRC.

CONCLUSION: IN WITH ELDER BROTHER, OUT WITH UNCLE SAM?

The increasing importance of China to South Korea will make it difficult for Seoul to maintain a close relationship with the U.S. government even if the Koreans wish it. The crucible for Seoul will be the emergence of an issue, such as missile defense or U.S. military bases, where South Koreans are forced to choose sides between China and the United States.

Recent events convince some observers that South Koreans are already moving to the Chinese side. It is premature to proclaim the end of the U.S.-ROK alliance with 37,000 U.S. soldiers based in South Korea and over 3,000 Korean soldiers committed to assisting the new government of Iraq at Washington's request. It is nevertheless fair to say that South Korean attraction to China and Chinese influence over South Korea are growing even as the U.S.-Korean relationship is undergoing serious strain and reassessment. Present trends are consistent with the prediction of some analysts that Northeast Asia's future will resemble its past, with Korea returning to the sphere of influence of a regionally dominant China.

In August 1999, South Korean Defense Minister Cho said during a visit to China that the fate of U.S. military bases in a reunified Korea “shall be decided by unanimous agreement among Northeast Asian countries,” implying that Korea would ask the U.S. forces to leave if this was China’s wish. During the U.S.-led campaign against the Taliban in Afghanistan, South Korean President Kim Dae Jung, who literally owes his life to U.S. government intervention that prevented an earlier and less democratic South Korean government from executing him during his dissident days, declined to dispatch a token contingent. Kim’s successor Roh Moo Hyun won the presidency largely on the strength of an anti-American platform. Roh said during his campaign, for example, that if fighting broke out between North Korea and the United States, South Korea would take a neutral stance.

Taking a long-term view, it is not certain if the trend of South Korea’s shift toward China and away from the United States will persist. Some of the conditions upon which the trend is based appear historically transitory. With generational change, the recent outcry arising from negative incidents involving U.S. military forces in Korea, general disapproval of some Bush Administration policies, and the divergence of views resulting from the North Korean nuclear crisis, the dominant attitude in South Korea today is a focus on the disadvantages of its alliance with the United States rather than the advantages. Coupled with this phenomenon is the fact that Beijing has been largely successful in persuading its Asian neighbors not to fear the rise of China.

Anti-American and pro-China sentiments could well weaken in the future if the United States withdraws its forces at Seoul’s request and South Koreans find that life in the shadow of China’s massive economic, political, and military power grows uncomfortable. As the dominant regional power, Beijing might expect Korea to submit to China’s wishes on important policy decisions. Koreans might also find that Chinese economic development leaves them with steadily shrinking international market share and rising competitiveness. Although Koreans currently see their relationship with China as beneficial on balance, potential disputes now dormant or easily contained might become more prominent in the future. South Korea is a vibrant democracy, Korean nationalism is a potent force, and South Koreans have demonstrated boldness in standing up for their interests and political agenda.

In the meantime, however, the deepening ROK-PRC relationship and what many observers call the “crisis” in U.S.-ROK relations suggest the days of the Korean-American alliance may be numbered. China certainly will not approve of a united Korea remaining a permanent host of forward-deployed U.S. forces, even if they are reconfigured as a regional peace force rather than a deterrent against a North Korean attack. Indeed, it is far from clear if Koreans themselves would approve.



SPECIAL ASSESSMENT

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Asia's Bilateral Relations

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Japan-Australia Relations: Friends But Not Allies

Y O I C H I R O S A T O

Executive Summary

- In the post-Cold War and post-September 11, 2001 security environment, Australia has expressed increasing interest in security cooperation with Japan. Yet, asymmetry in interests and capabilities exists between the two countries.
- On the economic front Japan is the second most powerful world economy whereas Australia ranks number sixteen. On the security front, both Japan and Australia have considerable defense capabilities, but Japan has far greater legal and political restrictions on their use.
- Japan-Australia bilateral security cooperation has expanded from a limited scale, but tends to occur within multilateral frameworks. This emphasis on multilateralism can be observed in joint proposals for both economic and security cooperation. Japan pursues bilateral security cooperation with Australia as a part of its omni-directional efforts to increase cooperation with regional countries.
- Sensitivity to China and ASEAN countries' concerns are important factors shaping the extent of bilateral Japan-Australia cooperation.
- The South Pacific region offers the arena for closest security bilateral cooperation despite the divergent interests of Japan and Australia. Close proximity of Australia demands closer attention to internal security of the island states, whereas Japan's interests are more economic and maritime. In regard to Southeast Asia and Northeast Asia, Japan and Australia can only coordinate their respective foreign and security policies toward these regions. Security cooperation at the level of military operations needs to be inclusive of the ASEAN countries and China, focused on low-intensity missions, or both.
- The Japan-Australia relationship has direct interests for the United States, which has agreed to enter into trilateral discussions to exchange information and cooperate on regional and global issues. While China has expressed concern that such trends mark the possible emergence of a NATO-like structure in the Asia-Pacific, in fact current Japan-Australia cooperation along with the United States only marks an effort to enhance political and security ties amidst a changed regional and global environment.

OVERVIEW OF POLITICAL TIES

The closeness of bilateral ties between Australia and Japan can be measured by frequency of mutual visits by their prime ministers. Japan's prime ministers have visited Australia at an average interval of 5 years between 1957 and 2002. Australian prime ministers have visited Japan at an average interval of 2.6 years between 1957 and 2003. It took 13 years between the visit by Prime Minister Robert Menzies in 1957 and the next visit by Prime Minister John Gorton in 1970. Since 1970, Australian visits to Japan became more frequent, at an average interval of 1.9 years. These high-level visits have focused attention at particular times, but ongoing contact between Japanese and Australian officials also occurs in bilateral and multilateral settings that attract less attention, but nevertheless provide a basis for concrete, working-level cooperation.

The two countries also launched a major track-two diplomatic effort in 2001 under the co-chairmanship of Jeremy Ellis of the Australia-Japan Foundation and Minoru Murofushi of the Itoh Chu Corporation. The first meeting titled "Australia-Japan Conference for the 21st Century" issued a co-chairs' statement that identified as their common interests continued engagement of the United States in East Asia and China's integration into the region as a "constructive regional partner." In regard to sub-regional and transnational security issues, the statement also called for strengthening bilateral dialogue and "cooperation to improve capacity to respond to crises." However, the bilateral partnership was aimed at "reinvigorat(ing) multilateral processes in the region and globally." This emphasis on multilateralism can be observed in their proposals for both economic and security cooperation.

A meeting between Prime Ministers Koizumi and Howard on May 1, 2002 produced a joint statement titled "Australia-Japan Creative Partnership," in which both leaders emphasized the importance of "working together to meet regional challenges," including assisting the transition of East Timor and combating transnational problems in the region. The statement also emphasized that "regional diversity and the specific needs of other countries in the region" must receive consideration, and that U.S. engagement and presence in the region underpinned stability.

Cooperation on East Timor represents one example of the current nature of Japan-Australia interaction. Under the UN Peacekeeping Operation banner, Australia and Japan provided the largest numbers of troops to East Timor among the participating countries. The two countries consulted each other on their assessments of, and roles in, East Timor via diplomatic channels. Cooperation appears to have proceeded well, and both sides have suggested that East Timor is an example of solid bilateral cooperation within a multilateral framework.

Another example of cooperation relates to the Pacific Islands Forum (PIF). Japan has maintained close relationship with the PIF. Australia and Japan also bilaterally discuss security matters of the South Pacific Island countries, for Australia is the dominant security actor in this region. Australia sees an "Arc of Instability" made of politically fragile South Pacific island states and fears possible outflow of refugees from this region. Australia also fears that political vacuum may invite terrorists and criminals into these islands to use them as transit bases for entry into Australia. Meanwhile, Japan's interests in the South Pacific revolve around less restrained and affordable accesses to the region's tuna fishery and sea-lanes. Of particular concern is safe shipment of nuclear wastes and reprocessed plutonium through this region. Australia and Japan are primary donors of

economic aid to the region and coordinate their aid policies. Australia takes a leading military role in the region if supported by the PIF, whereas Japan has stayed out in this regard.

Australia, like many other industrialized democracies, has expressed diplomatic support for the cause of stopping nuclear weapons development by North Korea, Japan's most immediate security concern. Its financial contribution to Korean Energy Development Organization (KEDO) in the Framework Agreement of 1995 represented the softer side of Australian diplomacy toward North Korea, whereas its active involvement in the proliferation security initiative (PSI) during 2002-2004 crisis represents the harder side. In both instances, policies were coordinated with Japan, United States, South Korea, and some European partners.

Japan and Australia also cooperate on global security concerns, and their shared policy stance may even sometimes contradict that of the United States. On the issues of small arms control, anti-personnel landmine ban, and chemical weapons ban, Japan and Australia were leading advocates of international regimes, despite the U.S. reluctance to fully participate in them. Meanwhile, on other issues, such as global terrorism and proliferation of weapons of mass destruction (WMD), Australia, Japan, and the United States maintain close diplomatic cooperation.

ECONOMIC TIES

Japan has consistently been Australia's number one export destination since 1969. Australia's exports to Japan are concentrated in mining commodities, such as coal, liquefied natural gas (LNG), and iron ore, beef, and aluminum, which together account for around 60 per cent of merchandise exports. In all five product categories, Japan is Australia's largest market: coal (42 percent), iron ore (39 percent), beef (38 percent), aluminum (34 percent).

Items of Importance for Japan in Australia-Japan Trade

(in thousand US dollars)

	Japanese Exports to Australia			Australian Exports to Japan			
	Overall	Passenger Cars	Bus/ Trucks	Overall	Coal	Iron Ore	Gold
1997	7,970,000	244,618	125,370	14,546,000	426,061	180,938	35,837
1998	8,020,000	293,837	142,869	12,989,000	421,056	189,809	35,243
1999	8,446,000	289,568	112,076	12,808,000	354,266	160,818	26,179
2000	8,580,000	301,098	87,548	14,774,000	343,920	165,256	25,745
2001	7,693,000	306,287	75,033	14,385,000	442,851	184,494	18,172
2002	8,318,000	373,907	104,724	13,986,000	457,855	197,224	47,412
2003		457,348	111,895		427,729	209,481	12,278

Source: Ministry of Finance (Japan). Australian LNG export details are kept confidential.

Australia absorbs only a small part of the overall Japanese exports, and they are concentrated in transportation equipments (passenger cars, buses, and trucks) and components. Japan is the second largest source of merchandise imports for Australia.

Bilateral trade relations represent their comparative advantages, but the division of labor is less than perfect. While Japan is poor in natural resources and has to depend on Australian

exports, Australia has domestic automobile production under protective import tariffs. Japan could enjoy cheaper Australian meat and dairy products, had it removed restrictive import tariffs and quotas on them. The relative absence of the manufacturing industries in Australia limits the volume of components and capital goods exports from Japan.

**Japan's principal
export destinations, 2003**

1	United States	24.6%
2	China	12.2%
3	Korea, South	7.4%
4	Taiwan	6.6%
5	Hong Kong	6.3%
12	Australia	2.1%

**Japan's principal
import sources, 2003**

1	China	19.7%
2	United States	15.4%
3	Korea, South	4.7%
4	Indonesia	4.3%
5	Australia	3.9%

Compiled by the Market Information and Analysis Section, DFAT, using the latest data from the ABS, the IMF and various international sources. <http://www.dfat.gov.au/geo/fs/jap.pdf>

INVESTMENTS

Japan's outward foreign direct investments into Australia amounted to 567.3 billion yen (US\$4.11 billions) in 1989 at the height of its "bubble economy." 38.3 percent of that amount went into the real estate sector, followed by the services (22.8), finance and insurance (13.0), mining (11.5), and trading (6.9). The overall outward FDI to Australia declined to less than half of its peak by mid-1990s, but the manufacturing sector, especially transport equipment, food processing, and metal industries recorded sizable Japanese investments during the first half of the 1990s. As Japanese FDI further declined to the recent bottom at 60.3 billion yen (US\$559.9 millions) in 2000 and show only a shaky recovery since then, and investments in the real estate sector radically fluctuated, mining, trading, services and metal industries consistently remained among the top recipients of Japanese money. Cumulatively, Japan holds roughly 48 billion Australian dollars (US\$31.5 billions) in FDI in Australia as of June 30, 2003, which placed it as the third largest foreign investment source for Australia. On the other hand, the bilateral investment relations remain one-sided. Australian FDI in Japan remain negligible for Japan, both in absolute and proportional terms, although Japan is the fourth destination for Australian FDI.

Australia and Japan are both strong supporters of the multilateral trade framework of the World Trade Organization (WTO), but their interests diverge in regard to trade liberalization in the agriculture and other primary goods sectors (such as forestry and fishery). Australia is a leading member of the Cairns Group countries, which most strongly promote agricultural trade liberalization and removal of agricultural subsidies in the WTO rounds. Meanwhile, Japan has numerous non-tariff trade barriers and high tariff rates against imported farm products and is most reluctant to open up its agriculture market. Its divided domestic politics makes it even harder for Japan to effectively use its farm sector opening as a bargaining chip in negotiating opening of the manufactured goods markets by others, including Australia.

Australia and Japan were the key initiators of the Asia Pacific Economic Cooperation (APEC). In the late 1980s, faced with Europe's accelerated move toward economic

integration (which eventuated in the form of European Union) and North America's pursuit of free trade agreements (which led to the North American Free Trade Agreement—NAFTA), Australia and Japan feared possible exclusion of East Asia and Oceania from the emerging two blocs. Therefore, integrating the Asian Pacific economies and anchoring U.S. links in the region were common strategic objectives of Australia and Japan. Both countries were opposed to regional trade groupings that excluded the United States, such as the East Asian Economic Group (EAEG) proposed by Prime Minister Mahathir of Malaysia. However, at the more specific policy level, their diverging interests over the primary products sector trade have been one of the leading causes of APEC's stagnation on trade liberalization. APEC's Early Voluntary Sectoral Liberalization (EVSL) initiatives have failed to jump-start the market opening process, and its members have been lacking a willingness to "volunteer" significant market concessions. Recent shift of focus onto trade facilitation measures in APEC implicates this difficulty. In this context, while Japan and Australia pursue bilateral agreements on free trade and other expanded economic cooperation with their respective third parties, a bilateral agreement between Australia and Japan lags behind and remains in the stage of agreeing to launch government level studies as of late April 2004.

Australia consistently runs a trade surplus with Japan, due both to strong natural resource exports and lack of sizable manufacturing sector—which would inflate machinery imports. However, its export sectors are increasingly dependent on Japanese FDI. Australia has signed a free trade agreement with the United States and is pursuing one with China and ASEAN. This diversified approach reflects not only Australian exporters' interests in increased exports on an absolute basis, but also their desire to diversify export markets. From the Japanese point of view, the Australian market is too small to be significant. The compatibility between the two economies in terms of product specialization has been further enhanced by Japanese FDI into Australia's primary export and resource- and energy-intensive manufacturing sectors, such as aluminum production. However, both the gap in economic sizes and lack of progress in global and regional agricultural trade liberalization (for which Japan is partly to blame) have placed Australia in a position to wish more.

SECURITY TIES

Both Australia and Japan place emphasis on their bilateral alliance with the United States as the cornerstones of their security policies. While Australia has actively cooperated with the United States in the security domain by jointly fighting wars in Korea and Vietnam during the Cold War years, Japan refrained from both direct troop dispatch beyond its territorial space and exercise of rights to collective defense. Troop deployments by both countries to the Operation Enduring Freedom—OEF (against the Taliban and Al Qaeda forces in Afghanistan) and the Operation Iraqi Freedom (OIF) have illustrated that the two alliances have evolved out of their Cold War mold. The alliances are no longer characterized by one-sided dependence on the United States and single-minded focus on containing another hostile superpower.

The most important uncertainty common in the Australian and Japanese security thinking is China's future. China's rapid economic growth provides greater opportunities for both Japan and Australia to gain through trade and investments. At the same time, both Australia and Japan perceive a mixed signal from China's simultaneous pursuits of active participation in regional multilateral security discussions and military modernization.

Therefore, both Australia and Japan prefer to keep the United States engaged in regional security through their bilateral alliances in order to hedge against a strong and hostile China. At the same time, enhanced alliances with the United States in anticipation of a strong and hostile China may unnecessarily alarm China, fulfilling its own prophecy. Therefore, engaging China in multilateral frameworks, such as the ASEAN Regional Forum (ARF) and more recently in APEC summit meetings, so as not to alienate it, and increasing economic interdependence through trade and investments, is the preferred approach by both Australia and Japan.

The two countries' strong alliances with the United States contrast with the absence of strong security cooperation between Australia and Japan. While realist theories of international relations point to the power gap between the stronger alliance partner (the United States) and weaker partners (Australia and Japan) and the former's preference for bilateral arrangements, which offer it a better bargaining position, several other factors also account for weak Australia-Japan cooperation.

First, Japan's present constitutional interpretation bars the country from exercising rights of collective defense. Under this pretext, enhanced U.S.-Japan cooperation since the 1980s, which increasingly constitutes *de facto* collective defense, has had to be explained as Japan's increased shouldering of its own "self defense." Since the present constitutional interpretation bars Japan from defending another country, but permits Japan to be defended by another country, Japan would have difficulty in explaining a security partnership with weaker partners, like Australia, as "self defense."

Second, both Australia and Japan hope and encourage China to be a responsible and cooperative regional security partner. Enhancing bilateral security cooperation, including Australia-Japan cooperation, without simultaneous development of multilateral frameworks that include China, would be counterproductive for this purpose. Multilateral frameworks in the Asia-Pacific region are still in their early stages of formation and yet to prove their problem-solving capacities.

Third, ASEAN members also are skeptical of a strong security partnership between outside powers. In addition to their common discomfort about a strong Japanese presence in the regional security matters, Indonesia in particular has less than a cordial relationship with Australia over such issues as Irian Jaya (West Papua), Aceh, illegal migrations, and terrorism. Japanese reluctance to assert not only its own leadership, but also joint regional leadership with Australia, was clearly visible even in the formation of APEC: an economic cooperation efforts in which win-win situations were easier to argue than in security cooperation.

Fourth, timing is also an important factor in explaining the infant stage of development of Australia-Japan bilateral cooperation. Incentives for cooperation clearly exist in both countries, though probably more in Australia, as demonstrated by increased frequency of the political and military exchanges. Nevertheless, both Australia and Japan are amid post-Cold War strategic reviews, and the fluid security conditions in the Asia-Pacific region, in particular after the September 11, 2001 terror attack on the United States, have necessitated a search for new areas of security cooperation, which open new opportunities but take time to articulate.

In this context, Japan and Australia have held annual consultations between their defense and diplomatic officials at the level of bureau chief and vice-minister since 1996. However, this development was preceded by annual Japan-China and Japan-Korea

meetings and less frequent high-level meetings between Japan and UK, Germany, France, and Russia. Japan also started regular high-level discussions with Indonesia, Malaysia, Singapore, Thailand, and Canada, following the launch of the annual discussions with Australia. Thus, the Japan-Australia bilateral consultations constitute only a part of Japan's broad network of similar bilateral links.

Australia and Japan have both announced their participation in the U.S. Missile Defense (MD). Australia has agreed to construction of a U.S. radar site to track ballistic missiles, in addition to participation in research and development. Japan has announced deployment of sea-based SM-3 and land-based Patriot-3 interceptor missiles and started retrofitting one of its Aegis destroyers, while continuing on the joint research with the United States on Theater High Altitude Area Defense (THAAD). However, third-party transfer of jointly developed technology by Japan and the United States would likely violate Japan's prohibition on arms export (including military technology transfer). While Japan's self-imposed restrictions against collective defense may limit the scope of U.S.-Japan cooperation, how much (if any) Australia-Japan cooperation will develop out of the MD is even less certain.

As allies of the United States, Australia and Japan share strong interests in nuclear nonproliferation. Despite its hesitation to actively participate in multilateral security actions that involve military forces, Japan has sent its coast guard ship to a PSI maritime interception exercise in the Coral Sea, Australia, in September 2003. However, another similar exercise to be hosted by Japan in May 2004 (in which a coast guard ship and Maritime Self Defense Forces' P-3C Orion plane was scheduled to participate) was cancelled due to Japan's fear of unnecessarily agitating North Korea at the time of the Six-Party talk over the issue of its nuclear disarmament and concerns among the Asian countries that the initiative may target China. With no plan of further participation in military exercises announced, Japan is focusing its efforts on training of Southeast Asian customs control personnel to curtail illicit trade of WMD technology and components.

UNITED NATIONS MISSIONS IN EAST TIMOR

The UN Peacekeeping operation in East Timor was a case of major collaboration between Australia and Japan among other participants but without heavy U.S. involvement. The United States only provided some logistical support to the operation, whereas some 1,600 Australian troops played a central role in maintaining law and order. Once the security situation stabilized, Japan's Ground Self Defense Force provided to the United Nations Mission of Support in East Timor (UNMISET) nearly 700 military personnel at its peak to assist in reconstruction efforts of the war-torn country. (7,687 total uniformed personnel, including 6,281 troops, 1,288 civilian police, and 118 military observers were present in East Timor under the United Nations Transitional Administration in East Timor (UNTAET) as of March 31, 2002; UNMISET has 1,738 total uniformed personnel, including 1,549 troops, 60 military observers, and 129 civilian police as of May 31, 2004) United Nations Secretary-General Kofi Annan appointed Dr. Sukehiro Hasegawa as his Special Representative for Timor-Leste and Head of the UNMISET in May 2004. Dr. Hasegawa was earlier appointed Deputy Special Representative of the Secretary-General and Deputy Head of the UNMISET on July 1, 2001.

CONCLUSION

Japan and Australia have enjoyed generally sound bilateral relations. Economic compatibility is already high, yet further specialization through trade liberalization is possible. In the post–Cold War, and post–September 11, 2001, security environment, Australia expresses increasing interests in security cooperation with Japan. Yet, asymmetry in interests and capabilities exists between the two countries.

Australia is concerned about stability in the South Pacific Islands, due to their geographical proximity and the possible outflow of refugees, illegal migrants, drug smuggling, and terrorists. Although Japan is remote from these islands, Japan's interest in a UN Security Council seat may lead to active involvement in the Pacific islands security matters beyond the current financial supporter role, in cooperation with, and under the leadership of Australia, as was the case in East Timor.

In Southeast Asia, Japanese and Australian concerns about transnational security threats overlap more closely, yet resistance to outside interventions is generally strong in this region, thereby limiting the scope of Japan-Australia bilateral cooperation. Provided with ASEAN's strong emphasis on respect of state sovereignty, Japan and Australia can only coordinate their respective bilateral cooperation with individual ASEAN countries.

Australian weight in Northeast Asian security issues, North Korea and Taiwan, is light. Australia's involvement in Northeast Asian security matters keeps pace with other industrialized (Western, including the European) countries, and its minimally "regional" character is shaped by its three important bilateral relations with the United States, Japan, and China.

Bilateral security cooperation has started on a limited scale, but tends to be folded in multilateral frameworks. Japan pursues bilateral security cooperation with Australia as a part of its omni-directional bilateral security relations.

Sensitivity to China and ASEAN countries' concerns are important factors that limit the extent of bilateral Japan-Australia and trilateral U.S.-Japan-Australia cooperation.



SPECIAL ASSESSMENT

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Asia's Bilateral Relations

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Australia-Papua New Guinea Relations: New Pacific Way or Neocolonialism?

ERIC Y. SHIBUYA

Executive Summary

- Papua New Guinea (PNG) remains one of Australia's major bilateral regional relationships. Australia had been PNG's colonial administrator until independence in 1975, and the relationship remains close though, as is often the case, not consistently harmonious. Over 30 percent of Australia's bilateral aid package goes to PNG. Despite this assistance, many critics have said that PNG has squandered opportunities for development, and one notable think tank issued two major pieces in 2003, titled "Papua New Guinea on the Brink" and "Aid has failed the Pacific." Australian concerns have surfaced that PNG could become a "failed state" much like its neighbor, the Solomon Islands.
- The success of the multilateral (but Australian-led) Regional Assistance Mission to the Solomon Islands (RAMSI) may have also been a catalyst for Australia to conduct and implement an Enhanced Cooperation Program (ECP) with the PNG government.
- Separatist sentiments in Bougainville, while currently calmed, have been a major distraction for PNG's central government and have made foreign relations with Australia even more problematic. The environmental damage caused by copper mining projects (dominated by Australian corporations) has not yet been fully addressed.
- There are some critics who argue that Australia's new activism in the region is detrimental to the island states; such actions impinge on the sovereignty of Pacific Islands countries and signal a new neocolonial attitude on Australia's part. Supporters of the policy point out that while this activity benefits Australia's national interest in maintaining and enhancing stability in the region, the ECP is also meant to increase government efficiency and aptitude in PNG, thus providing greater services to the populace. Full implementation has stalled due to resistance by the PNG government (and grassroots protests) as well as Australian insistence of immunity from prosecution of their police officers and officials, though there are indications that the Australian government may back down from that requirement.
- PNG will remain a central part of Australia's foreign policy, irrespective of whatever relationship Australia has with the United States. More to the point, the Australia-U.S. relationship, especially in regards to the war in Iraq, may have a greater impact on Australia-PNG relations due to the sense of Australia's growing activism internationally and the potential for further intervention into PNG.

INTRODUCTION

Although much has changed for Australia in the international arena in the aftermath of the Bali bombings and the war in Iraq, its relations with Papua New Guinea (PNG) remain a constant and important part of its foreign policy. The Howard government has frequently been criticized as paying little attention to the island countries in Oceania, but recent events have resulted in a shift of focus, which has brought with it a consequent—and ironic—wave of criticism.

With the exception of a hiatus due to Japanese occupation during World War II, Australia was PNG's administering authority under League of Nations and later United Nations (UN) mandates until the granting of internal self-government in 1973 and full independence in 1975. Like many other decolonization experiences in Oceania, much of the impetus toward independence was brought from the top-down, with Australia responding more to international opinion for decolonization. While grassroots and other social movements for independence did exist in PNG, they were not the strongest reason for independence. There were, in fact, some segments of the population that hoped for an even closer connection with Australia. This absence of a strong indigenous decolonization movement is often cited as a factor in the relatively weak sense of nationhood within PNG, and the disparate population (some 700 distinct languages) within the state has never experienced a catalyzing event to coalesce as a nation.

With independence, PNG adopted a Westminster parliamentary form of government, though its adoption in a political culture that has more to do with personal relationships than party philosophies has been highly problematic. Electoral politics in PNG have been less about party identity and cohesion and more about personalities and personal reward. Electoral violence has not been uncommon, and political parties are numerous, practically insuring government by coalition. Parliamentarians crossing the aisle for better deals are also a frequent occurrence, and legislation requiring that elected government be allowed to stand for eighteen months before any no-confidence vote can be called has only been minimally successful in promoting government stability. Although it receives a significant amount of aid (more than 30 percent of Australia's bilateral aid budget goes to PNG), several critics have argued the aid has been squandered. In 2003, the Centre for Independent Studies, an Australian think tank, published two major analyses, the titles of which give the flavor of the kinds of conclusions being drawn—"Papua New Guinea on the Brink" and "Aid has failed the Pacific."

Questions of government stability and effectiveness have long plagued PNG, but Australia, while concerned, had always played a very hands-off role regarding such matters, fearing understandably that any advice/criticism would be seen as overbearing and even neocolonial. Academics and some policy makers expressed concern with Australia's northern "arc of instability" (which originally encompassed Indonesia and PNG then later the Solomon Islands), though domestic political will for direct action by Australia seemed absent. However, international events after the September 11 attacks on the United States, especially the Bali bombing of October 2002, have contributed to a willingness by Australia to initiate a more activist policy in the Oceania region. Frequently accused of doing little to aid PNG (and the island states in general), the Howard government now finds itself accused of doing too much and interfering with the "Pacific Way" of regional interaction that have been shaped over the last thirty years of regional meetings and politics.

BOUGAINVILLE

While it is an internal problem for PNG, secessionist sentiments in Bougainville remain a significant security issue, and this problem has had and will continue to have spillover effects for Australia. It is no exaggeration to suggest, as Australian Foreign Minister Alexander Downer has, that the issue of Bougainville “distorted” Australia-PNG relations for nearly a decade from 1989-97. Certainly, considering the colonial legacy also clouding Australia-PNG relations, Downer could also be accused of understatement.

Geographically and culturally separated from the PNG mainland, Bougainville is a part of PNG due to colonial divisions and legacies rather than indigenous connections. The Bougainvilleans have always viewed themselves as separate from the rest of PNG and more culturally connected to the Solomon Islanders to the east. (It would be a mistake though to consider Bougainville a united group since many different linguistic groups coexist there). The desire by Bougainville to be part of the Solomons (or at least independent from PNG) was expressed as early as 1962. Conflict sparked after the closure of the Panguna copper mine in 1989. The mine was a significant part of PNG’s revenues, but two major factors increased the tension on Bougainville. First, the migration of “redskins” from other parts of PNG to work in the mine caused resentment among the Bougainvilleans. Secondly, the environmental degradation caused by the mining activities exacerbated the perception that the Bougainvilleans were suffering all of the costs of the mine, while receiving very little of the benefits. Bougainville separatists used the environmental degradation issue as evidence of the lack of concern (and outright hostility) from the central government. The largest scandal occurred in 1997, when the PNG government hired the mercenary group Sandline International to deal with the separatist Bougainville Revolutionary Army (BRA). The uncovering of the Sandline Affair led to the fall of the government and was an embarrassment to the PNG Defence Force (PNGDF), which interpreted the hiring of mercenaries as an indication that the government did not think it could deal effectively with BRA.

After nearly a decade of fighting, both sides signed a truce in October 1997. A multinational Truce Monitoring Group (TMG) led by the New Zealand military was established and implemented. The use of individuals from Fiji and Vanuatu, who had the language skills and shared cultural affinities with the Bougainvilleans, greatly contributed to the success of the TMG, which was transformed into a Peace Monitoring Group (PMG) in May 1998. Transfer of leadership shifted from New Zealand to Australia with the institution of the PMG, but Australia was careful to maintain the multinational nature of the group. Talks on autonomy for Bougainville were concluded in 2001 and brokered by Australian Foreign Minister Alexander Downer. Australia’s role in settlement of the Bougainville conflict has been viewed as favorable in PNG, though that may be due to factors that do not currently exist in the larger context of Australia-PNG relations. Certainly, criticisms abound as to what many see as Australia’s “new” activism in the region generally and in PNG in particular. Such criticisms were both tempered and exacerbated due to Australia’s intervention in the Solomon Islands.

SOLOMON ISLANDS, HELPEM FREN, AND ENHANCED COOPERATION IN PNG

In 2003, Australia announced that it would lead a mission of “cooperative intervention” to restore law and order in the Solomon Islands. This announcement was greeted with optimism, though some criticized that such action was coming a little late in the game. The Solomons had been experiencing a conflict on the main island of Guadalcanal between the indigenous people of Guadalcanal (Guale or Isatabu) and the people from the neighboring island of Malaita, who had migrated to Guadalcanal in search of economic opportunities. (To define this conflict solely as one between Guales and Malaitans is to gloss over significant internal divisions and categorizations within each group, but the two major competing militia groups did use these identifications during the conflict). In June 2000, the elected government of Bartholomew Ulafa’alu was overthrown, just a month after the George Speight-led overthrow of the Chaudhry government in Fiji (contributing to the “arc of instability” image). Ulafa’alu had called for Australian military assistance to prevent the escalation of violence on Guadalcanal, but Australia in 2000 was hesitant to act so directly in the Solomons. Expressions were made in the press of the fear that Australian intervention in the Solomons would mean Australia would be “running the place for the next fifty to one hundred years,” a thought that certainly gave many pause for consideration. However, Australia in the post-September 11, post-Bali bombing world proved more willing to intervene. (Though some critics consider it a sham justification, the Australian government noted that the 2003 request for intervention came with the unanimous consent of the Solomons Parliament, while Ulafa’alu’s 2000 request, the Australians argue, did not). Called Operation “Helpem Fren,” (tok pisin for “Help a Friend” and later retitled the Regional Assistance Mission to the Solomon Islands [RAMSI]), the operation has been considered a major success in restoring law and order on Guadalcanal.

While RAMSI’s first step toward law and order restoration in the Solomons has been very successful, the long-term maintenance of the peace remains in doubt. Certainly, the true measure of stability in the Solomons will rest on the shoulders of the Solomon Islanders themselves, but Australia will maintain a significant presence for the foreseeable future. While the military and police presence has and will continue to drop away, the installation of Australian civil servants into high positions in the Solomons government structure (notably in finance and law enforcement) will be the real test of RAMSI’s value beyond a crisis management program. With the expectation of continued success with RAMSI, the Australian government proposed a similar type of program with PNG. Called an Enhanced Cooperation Program (ECP), the plan is in essence similar to the second and ongoing phase of RAMSI. The ECP intends to put 230 police officers and 64 officials to work in PNG in the areas of justice, public sector management, border security, and transport. Full implementation has been delayed because of criticism from PNG officials that the program was a significant infringement on PNG’s sovereignty. The criticism increased when Australia wanted immunity from prosecution for those officials it sent to PNG as part of the program. (Subsequent reports suggest that Australia will back down from this request.)

Australian resources and political commitment are obviously key to the successful implementation of the ECP, but equally important will be the local and regional support that the program receives. While RAMSI is frequently discussed as an Australian mission,

the Howard government has repeatedly noted (quite rightly) that the mission received not only the political approval of the Solomons Parliament and the Pacific Islands Forum, but was also composed of participants from various countries in the region. (The “R” in RAMSI does stand for regional, after all). The ECP, however, is slightly different in the sense that it is exclusively an Australian program. This distinction has certainly been an issue, and critics of the ECP have been quick to use the term “neocolonial” to describe the ECP. The Howard government has generally brushed aside the criticism, arguing that they have both a right to decide how to spend its aid money and even an obligation (to the Australian taxpayer) to see that its funds are being used efficiently. This latter understanding of the Howard government’s motivation has received domestic support in Australia if not international approval.

It is clear that Australia intends to play a larger role in Oceania than it has, certainly in the last decade or so. It has announced a major increase in its aid package to the region, with PNG getting a significant increase of US\$71 million, bringing Australia’s aid package to PNG up to US\$303 million (A\$435.6 million). This increase is part of an overall increase to aid in the Pacific, which will more than double this fiscal year from US\$122 million to US\$266 million. Australia also intends to play a more substantial role in the Pacific Islands Forum, Oceania’s premier regional organization. By informal tradition, the Forum’s Secretary General has always been an islander, and the selection done by consensus. The 2003 Forum marked a departure to this tradition when Prime Minister John Howard put forward diplomat Greg Urwin as a candidate for secretary general, and pushed for the selection to be done by secret ballot. Both points were departures in the tradition of the Forum, and PNG’s Prime Minister Michael Somare criticized the move as an end to the “Pacific Way” of politics that had governed much of the previous experience of the Forum. There is some conjecture that pressure was put on some island states to support Urwin, with Australian aid packages being the “stick” held over the island governments. The Howard government’s response to these criticisms was to argue that the Forum itself had become largely irrelevant in the region and significant reforms were necessary to raise the Forum’s profile. (An Eminent Persons Group was organized in 2003 with former leaders of the region to conduct a study on reforming the Forum, and its report has been submitted to the Forum Secretariat).

SPIILLOVERS: OTHER RELATIONSHIPS

While Australia remains PNG’s largest trading partner (some A\$1 billion annually), Malaysia has quietly moved into second place at A\$300 million (overtaking Japan). Former Malaysian Prime Minister Mahathir Mohammed generally had good relationships with PNG officials, and his controversial statements frequently irritated the Australians, much to the amusement of many in PNG (including those in government). While certainly not on equal terms, increased economic relations with Malaysia have helped PNG lessen some of its dependence on Australia. Mahathir’s angry rebuttal to Howard’s statements about the possibility of Australia conducting preemptive attacks in the region to defend itself from terrorists gained much resonance in the region, and PNG was certainly no exception. Indeed, many in PNG felt they knew better than most of Australian intervention in its affairs.

PNG's relationship with the People's Republic of China (PRC) is generally stable, having established relations a year after PNG's independence in 1976. The most notable event occurred in 1999, when PNG switched its recognition to Taiwan, reportedly in exchange for some US\$3.5 million. This shift was instituted in the final days of the Skate administration and lasted only two weeks. The newly installed government of Mekere Morauta quickly switched its diplomatic recognition back to Beijing.

CONCLUSION: IMPLICATIONS FOR U.S. POLICY

There are few direct implications for U.S. policy regarding the Australia-PNG relationship. The Australian connection to PNG is long lasting and will continue to be so, outside of any other bilateral relationship. If anything, the relationship between the United States and Australia—regarding the war in Iraq and the greater Global War on Terrorism—has significant spillover effects on Australia's extension in Oceania generally and in PNG in particular. Australia's participation in the war in Iraq and its successful (so far) intervention in the Solomon Islands have seemed to increase its international confidence, and it does seem more willing today to use its resources and influence closer to home. Australia's worries about an arc of instability to its north have now been coupled with the political will to intervene at some level in some of these countries.

To the extent that RAMSI and the ECP increase the stability of the Solomon Islands and PNG, this will benefit Australia and the rest of the international community. To the extent (less likely, but the potential exists) that Australia's new interventionism (especially the ECP) is resented as Australia "reasserting" its neocolonial position in the Pacific, the long-term resentments could increase and fester in the region. To the extent that Australia's activities can be portrayed as part of a Western intervention, it could be used as another point in the rallying cry against "Western imperialism." This last scenario is generally unlikely, especially in Oceania, which is still very much pro-Western and, in any case, programs like the ECP have been seen as distinctly Australian rather than Western. In many ways, Australia is caught in a no-win situation, criticized for not doing anything when trouble hits and criticized for doing too much when it tries to take a more activist position in Oceania.



Asia-Pacific Center for Security Studies



SPECIAL ASSESSMENT

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Asia's Bilateral Relations

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Australia-Indonesia Relations: Getting Beyond East Timor

ANTHONY L. SMITH

Executive Summary

- Successive Australian governments have developed a defense strategy predicated on a threat from and a need for stability in the north, giving observers the impression that Indonesia is a major concern that has loomed large in Australia's strategic vision (rather than vice versa). Historically, Indonesia's defense planners have also had concerns about a northern threat but there are indications that they now see Australia as a latent threat.
- In the past, officials in Australia have worked hard to build a special relationship with Indonesia, which included generous Australian aid, and—in Canberra's view—tacit support for Indonesia's acquisition of East Timor. Although the relationship may have had slightly less significance from Jakarta's point of view, Australian support for its stability was considered highly desirable.
- The East Timor crisis of 1999 had altered Indonesia's perception of its neighbor and poisoned Australia-Indonesia relations, ending what had been an intimate relationship. While Australia scrambled to keep pace with East Timor's looming independence, Indonesia blamed Australia for the territory's secession from the Republic. Today, Indonesians believe that Australia is the primary threat to national cohesion.
- After September 11 and, especially, the October 12, 2002 Bali bombings that killed eighty-eight Australians, Indonesia figured prominently in Australian security. Australia believes conditions there may pose a threat to its citizens and Australian assets overseas.
- In the wake of difficulties to the bilateral relations, both Canberra and Jakarta are trying to restore elements of past cooperation. For example, in the aftermath of the Bali blast, Australian police were instrumental in assisting their Indonesian counterparts in dismantling the culpable *Jemaah Islamiyah* cells.
- For the United States, Australia's links with Indonesia have always been useful because they helped shore up Indonesia's security and stability. However, today in the wake of East Timor and Bali, Canberra-Jakarta links are shaken, and the United States needs to be realistic about the limitations of the Australia-Indonesia relationship. Furthermore, Australia's close alliance with the United States has proven to be a liability in normalizing Australia-Indonesia relations; many Indonesians see the United States as having negative designs on their country for which Australia is a willing partner.

INTRODUCTION

Since the end of World War II, Australia has been aware that Indonesia is of crucial importance to Australian security. Australia has worked hard since Indonesian independence to establish a “special relationship” between Jakarta and Canberra. Indonesia has also valued its relationship with Australia. Indonesia even gave Australia a sweetheart deal in divvying up the oil in the Timor Gap, most likely in exchange for Australia’s acquiescence to Indonesia’s controversial absorption of East Timor. However, because of Australia’s role in the independence of East Timor, Indonesia ended a defense agreement with Australia and relations grew sour. So sour in fact that key Indonesian leaders have cited Australia as the primary threat to its cohesion, particularly in relation to the troubled province of Papua.

Australian officials have worked hard to revitalize the relationship. At the functional level there is substantial cooperation. Australia has maintained its aid program and has assisted the Indonesian police in their Bali blast investigations. Restoration of military-to-military ties is in the works. Yet Australia has struggled to establish high-level visits. Both Indonesian presidents Wahid and Megawati have cancelled planned trips to Australia, most likely because of nationalist pressures emanating from the Indonesian Parliament and the general public.

RELATIONS POST-1945

In the aftermath of World War II, Australia was very conscious of the fortunes of its giant neighbor to the north. Australia supported independence for Indonesia in its struggle against the Dutch. Although relations deteriorated during the latter Sukarno years, including the crisis of Irian Jaya and *Konfrontasi* with Malaysia from 1963–66, Australia was mindful of future relationships. During Britain’s effort to contain Indonesian incursions into East Malaysia, for instance, Australia played an auxiliary role thereby limiting direct military engagement with Indonesia.

From 1965 Australian-Indonesia relations improved with the slow demise of the Sukarno regime and the emergence of Soeharto. Ties between democratic Australia and authoritarian Indonesia under Soeharto, while well received at the elite level, proved deeply controversial among the Australian public. Although Indonesia had not historically claimed Portuguese Timor (East Timor)—the tiny territory that occupied half the island of Timor at the eastern end of the archipelago—events inside this colony would greatly affect Indonesia. By 1975 it was evident that East Timor was about to go through a period of instability. During the resulting civil war, the left-leaning Fretilin Party assumed power and unilaterally declared independence. Having failed to influence East Timorese politics through surreptitious means, Indonesia planned and executed an invasion of East Timor under the guise of being invited.

Documents released by the Australia Department of Foreign Affairs and Trade (DFAT) now confirm that Australian officials not only knew of the invasion plans, but were convinced by their Indonesian counterparts that a speedy absorption of the territory was the best resolution to the situation. Australia gave *de jure* recognition to the “annexation,” one of the few countries at the United Nations (UN) to do so, and was rewarded in 1989 with a generous deal on oil reserves in the Timor Sea known as the Timor Gap Treaty. This treaty gave Australia 90 percent of the returns from oil in a region

known as “Zone A” which sits in the middle of the small sea between the two countries. (This treaty was later renegotiated to marginally favorable terms for East Timor after its independence.) Another noteworthy point was the treaty’s questionable legal status. According to international law, Portugal was still considered the legal representative of East Timor’s land and sea boundaries.

Australia’s elite-level dealings with Indonesia over East Timor proved deeply controversial with the Australian public—from left to right on the political spectrum—and ultimately set the two countries on a collision course. Australia’s war generation spoke of the “blood debt” owed to East Timor following support of Australian troops in the territory during World War II. Indonesia’s invasion of East Timor not only involved a great deal of violence but also resulted in the deaths of five Australian-based journalists who were murdered in Balibo. While Australia had hoped for a quick absorption of the territory, it may not have envisioned the brutal occupation that resulted in a hundred thousand deaths within the first decade after the invasion. During the 1991 Santa Cruz massacre, East Timorese students were gunned down, which resulted in greater international attention to the issue and harmed Indonesia’s bilateral relations with a number of friendly countries including Australia. (The United States, for example, cut military-to-military ties at the time.)

The political mismatch between the two countries was evident in another incident that caused enormous displeasure in Jakarta. In 1986 Indonesia expressed its anger over press reporting in the Australian media (notably a *Sydney Morning Herald* article) that exposed the corruption of Soeharto’s children. Indonesia sanctioned Australia by expelling a number of tourists. Ali Alatas, Indonesia’s long-time former foreign minister, made it clear in a 1989 speech to Australia’s National Press club that the Indonesian government did not appreciate the constant negativity from the Australian press. The fact that the Australian government is in no position to muzzle its press or other actors in its free society continues to be a sore point with Indonesia.

Despite everything that had transpired, Australia continued to work on ironing out problems in the relationship. In December 1995 the two countries signed the Agreement on Maintaining Security (AMS). The secret deal was a great surprise given Indonesia’s supreme reluctance to sign such agreements since its independence. The Australian government under Prime Minister Keating lobbied hard for the agreement. Soeharto viewed this as a gift to Keating, but it came with the expectation that Australia would limit its pressure on Jakarta over East Timor and human rights.

Differences between the Australian government and the Australian public over the country’s relationship with Indonesia would be scrutinized again over East Timor. In December 1998, Prime Minister John Howard, who succeeded Keating, sent a letter to Indonesian President Habibie that seemed to indicate a change in Australian policy. It urged Indonesia to grant autonomy to East Timor but did not actually mention independence.

In January 1999, Habibie—in a move that is still puzzling—decided to hold a referendum in the territory to determine once and for all whether the East Timorese wanted to be part of Indonesia. Habibie, like much of the Indonesian public, may have believed in a favorable outcome, having been reared on a diet of misleading information about opinions in East Timor. When nearly 80 percent of East Timor chose independence, Indonesian military-sponsored militia groups destroyed much of East Timor’s infrastructure, killed hundreds of independence supporters, and transported 200,000 people across the border. The Indonesian public, incredulous at the results of the ballot, were not only shielded from accurate news coverage of the violent aftermath (by an ad hoc military-enforced ban on coverage) but were informed in various ways by senior military officers that Australian intelligence operatives

had been active in the territory and had somehow rigged the UN balloting process. Both General Wiranto and Major General Kiki Syahnakri testified to the Indonesian parliament that Australian intelligence was a major irritant in the balloting process. The inability of the Indonesian population to accept the loss of East Timor or to understand the real nature of events continues to feed the perception that Australia is a “two-faced” friend.

Australia’s subsequent leadership of the International Force East Timor (INTERFET) operation in September 1999 to stem militia violence seemed to confirm Indonesia’s perception of Australia’s unnecessary meddling. The Habibie administration immediately revoked the AMS. The East Timor crisis caused a near meltdown of relations between Australia and Indonesia.

RELATIONS POST-EAST TIMOR

In the aftermath of East Timor, Indonesia experienced a wave of nationalist sentiment aimed against Australia. Conspiracy theorists in Indonesia see Australia attempting to break Indonesia apart. Despite numerous Australian assurances that it supports Indonesia’s territorial integrity—and lobbies other countries in the South Pacific to follow suit—Australia is unable to shake the perception that it remains a serious threat. (These reassurances have been viewed by the Indonesian government as vital, and the Department of Foreign Affairs has expended a great deal of energy in obtaining them, especially after East Timor’s independence.) Imron Cotan, Indonesia’s ambassador to Canberra, revealed in a March 2004 interview that 95 percent of 200 potential diplomats interviewed had expressed “anti-Australian sentiments.” Two successive ministers of defense in the government of Abdurrahman Wahid (1999–2001) openly cited Australia as a threat to national cohesion, particularly in the case of Papua. These official statements failed to differentiate between the actions of the Australian government and a number of Australian nongovernmental organizations (NGOs) who are indeed committed to Papuan independence. Nonetheless, the threat that Australia represents—from Indonesia’s standpoint—is one of soft power influence (stirring up independence sentiments) backed by hard power (such as the soldiers and assets employed during the East Timor crisis).

Australian policy toward Indonesia has been to balance support for “Indonesia’s unity and territorial integrity” with human rights concerns in the far flung corners of the Indonesian archipelago. In its September 2003 *Indonesia Country Brief*, the Australian DFAT stated that: “Australia has consistently urged the Indonesian Government to exercise restraint in Aceh and Papua, and to use the special autonomy process to address local grievances.” A message much like this one on East Timor, from Prime Minister Howard to President Habibie, was the “trigger” that caused the then-Indonesian president to call for a referendum on independence. Balancing Australia’s liberal-democratic concerns for human rights with a policy of convincing Indonesians that it does not support independence for disaffected regions has proved extremely difficult.

East Timor relations soured to such an extent that a series of planned high-level meetings between Australia and Indonesia were postponed. Wahid announced his intention to visit Australia on various occasions only to withdraw, most likely under pressure from Parliament and Wahid’s own supporters. After delays and cancellations, Prime Minister Howard visited President Megawati in Jakarta from August 12–13, 2001. He used the opportunity to meet with an array of political leaders including the vice president, key ministers, and parliamentary leaders.

RELATIONS POST-BALI

On October 12, 2002 two bombs went off in the Kuta area of Bali killing two hundred and two people, including eighty-eight Australians, and injuring many more. Testimonial evidence from Amrozi and Imam Samudra, two of the conspirators, indicated that the bomb was not specifically targeted at Australians—the former, in fact, indicated a desire to kill Americans. Nonetheless, with so many Australians among the dead and permanently injured, the Bali blast was a national tragedy on par with September 11. The incident strengthened Australia's resolve to tackle terrorism in the region, especially since it may endanger Australian lives and property overseas. Osama bin Laden's very public threats against Australia, on the grounds that Australia interfered in East Timor and joined the wars against Afghanistan and Iraq, add to real concern.

The massive numbers of Australian tourists to Indonesia—especially Bali—tapered off in the aftermath of the Bali blast. The Australian government still requests that its citizens put off nonessential travel, and particularly warns against travel to Aceh, Maluku, West Timor, Sulawesi, Kalimantan, and Papua. Pundits in the Indonesian media have subsequently blasted Australia for choking off the tourist industry.

But the war on terror has not driven a wedge between the two countries, largely because the Megawati government and Indonesia's security forces have come to realize the magnitude of the terrorist problem, albeit belatedly. At the functional level, cooperation between the Indonesian police and the Australian Federal Police over arresting those culpable for the Bali blast has been a model of success. More than eighty *jihadi* have been arrested at one time or another on the basis of careful forensics and detective work. When Jakarta handed down death penalties to two of the Bali bomb organizers, Amrozi and Imam Samudra, there was a mixed reaction among some of the victims' relatives since a minority, perhaps, did not support capital punishment. Any concerns that the Australian government might object to the ultimate punishment for these crimes were put to rest when Prime Minister Howard highlighted that his government would not protest these sentences, which was a departure from previous policy to oppose the death penalty in other contexts. Critics in Australia saw this as pandering to the voting public still angry over the blasts. (It made little impact in Indonesia itself, where the death penalty does not provoke public controversy.)

Even prior to the Bali blast, Australia had come to view terrorism as the primary threat. Bali confirmed the view that a secure partnership with Indonesia would be key to controlling the problem. Australia's number one priority in Indonesia is to sustain Jakarta's commitment to the war on terrorism. As Australia's 2003 Defence White Paper makes abundantly clear, the war on terrorism is now the major focus of Australia's defense policy.

Aside from cooperation between the two countries' police forces, Australia and Indonesia now cooperate through a range of multilateral and bilateral institutions. Alongside existing forums like the Association of Southeast Asian Nations (ASEAN) Dialogue, the ASEAN Regional Forum, and Asia-Pacific Economic Cooperation, both countries agreed to the South-West Pacific Dialogue and a trilateral meeting between Australia, East Timor, and Indonesia. A bilateral Joint Investigation and Intelligence Team was established in October 2002. An Australia-Indonesia Ministerial Forum, which was established in 1992, continues to operate. This forum has also featured the so-called Australia-Indonesia Development Area (AIDA), which remains a political statement of intent rather than a commercial agreement with teeth. However any hopes of a return to

the halcyon days of the Keating-Soeharto defense agreement will be dashed. The defense agreement was perhaps unimportant in itself, but it was a symbol of Australia-Indonesia security ties. Such a high-profile statement would be politically unpopular in both countries. Military-to-military cooperation will be restored in time, but significantly, it is still largely a severed link.

Aid, despite the ups and downs of the relationship, has continued to form a key component of the relationship. Australian aid patterns reflect its often-stated concerns for stability and good governance in its near neighbors. Australia's allocation for Indonesia now stands at US\$110 million, which reflects a modest increase over the year before. Australia's recent decision to double its aid budget to the Pacific has moved Indonesia to third place behind Papua New Guinea (US\$300 million) and the Solomon Islands (US\$139 million). Aid to Indonesia is just over double that given to the next highest recipients in Southeast Asia—Vietnam and the Philippines. Recently A\$15 million was given to Indonesia for parliamentary elections. A bipartisan observer team was also sent to Indonesian, and it gave an endorsement of the election as being free and fair. Australia's stated aims for Overseas Development Assistance (ODA) are to reduce poverty, assist in economic recovery, and further democratization in Indonesia. Australia has also aimed to channel aid to the handful of conflict zones in Indonesia that continue to simmer.

The trade relationship between Australia and Indonesia had grown by leaps and bounds until it leveled off in the financial crisis. From 1988 to 1998 trade rose from A\$1.2 billion to a respectable A\$5.7 billion, remaining stable but slightly down at A\$5.1 billion in 2000. The growth in the service trade also represents a strong potential, particularly with roughly 17,000 Indonesian students studying in Australia.

Clearly the relationship between Australia and Indonesia is still recovering from one of its lowest points. Indonesia remains suspicious of Australian intentions and Canberra's tight relationship with Washington. Despite the remaining obstacles, real gains have been made in areas of functional cooperation. In this sense, the relationship has picked up to some extent following its low point in 1999. Canberra and Jakarta formed a strong partnership to cooperate against terrorist elements. Both countries have also held meetings and come to an understanding on controlling the flow of illegal migrants that pass through Indonesian waters in an attempt to land in Australia. Australia also has plans in the pipeline to restore military-to-military relations. Although Australia does not face the same sort of formal, legalistic, congressional restraint as the United States in restoring this aspect of the relationship, any such moves will be controversial among the Australian public. As Australia looks toward its future working relationship, it faces uncertainty about who will be the Indonesian head of state by the end of the year. The entrance into the presidential contest of General Wiranto as the Golkar Party candidate—who has been cited in various reports for his less-than-exemplary role in the East Timor crisis—raises the possibility of a leader who has criticized Australia in the past. The Australian government, aware that Wiranto is a controversial person in Australia, has issued a statement saying it could work with the former general if he wins. Alexander Downer told the *Australian Broadcasting Company*: "If we start attacking General Wiranto now, that might turn out to be a bit of an election winner for him." Even if Australia would rather see the top job in Indonesia go to someone else, public criticism of the Golkar candidate would backfire badly.

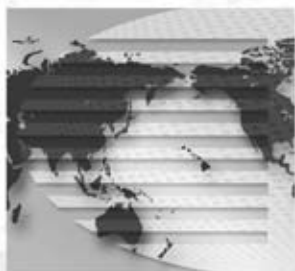
CONCLUSION

Australia highly values its relationship with Indonesia, but at times its proximity to Washington has created difficulties. Indonesian anger at Washington and Canberra has tended to go hand-in-hand; the two are seen as inseparable. Although Australia's historically close alliance with the United States is not necessarily a problem in itself, statements emanating from the Howard administration have not helped. In 1999 press reports erroneously attributed the infamous "deputy sheriff" remark to Howard, whereby Australia would act as an agent of U.S. foreign policy. Even though Howard never made this remark, he was slow to correct it, leaving many in the wider region with the impression that he had intended to convey something like this. In more recent times Howard not only endorsed the Bush Administration's "preemption doctrine," which has caused alarm in Indonesia, but announced an Australian version. Given that many in Indonesia (and other parts of Southeast Asia) assumed that they were the intended target, Howard drew considerable heat.

In the past, and to some extent in the present, Australia's strategic and defense role in Southeast Asia is welcomed in Washington. Police cooperation in Bali, although not strictly a defense operation, has been highly successful in taking down Jemaah Islamiyah cells. However, any improvements in the relationship between Australia and Indonesia will come slowly, and Washington cannot expect Australia to push harder. Officials in Washington—hoping that Australia will undertake roles that it realistically cannot—may be disappointed to find that Australia is even more constrained. Still, the distinct pattern in the relationship is one of reemerging ties. In time Australia will be able to restore much of the pre-1999 Australia-Indonesia relationship.



Asia-Pacific Center for Security Studies



SPECIAL ASSESSMENT

OCTOBER 2004

Asia's Bilateral Relations

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Malaysia-Singapore Relations: Never Mind the Rhetoric

ANTHONY L. SMITH

Executive Summary

- The depth of the relationship between Malaysia and Singapore is unmatched within the Association of Southeast Asian Nations (ASEANs). Trade and investment links are valued by both sides, not least of all by resource-poor Singapore. Both countries remain formally allied through the multilateral Five Power Defence Arrangements (FPDA) that also include Australia, Britain, and New Zealand. Through the FPDA, Malaysia and Singapore have the only regular and substantial military-to-military links within Southeast Asia. Both also share strong concern over the threat from terrorism.
- Despite the depth and breadth of cooperation, the relationship between Malaysia and Singapore is prone to a number of high-profile bilateral spats that receive considerable media attention. These spats, especially over the price of water piped into Singapore from Malaysia, have produced a fair amount of friction over the years. Yet they have not undermined cooperation in a number of other important spheres of mutual interest.
- Loose talk of war between Malaysia and Singapore by some commentators has been publicly dismissed at the highest level by both sides as being directly contrary to the well-being of both countries. The emergence of Abdullah Badawi as Malaysia's new prime minister would likely buttress high-level efforts in both countries to avoid inflammatory rhetoric and pursue diplomatic approaches to bilateral disputes.
- A robust and cooperative relationship between Malaysia and Singapore remains critical for ensuring the security of the most important sea-lane in the world—the Malacca Straits. America's interest in a vital bilateral relationship now also extends to the war on terrorism. Cooperation between Malaysia and Singapore on dismantling terrorist cells has gone hand-in-hand with each country's bilateral cooperation with the United States against terrorism. Strong Singapore-Malaysia relations also permit the two countries to influence the rest of ASEAN to take the terrorist threat seriously.

INTRODUCTION

Tim Huxley, a prominent academic specialist on Southeast Asian security, caused a stir in Singapore with his publication *Defending the Lion City: The Armed Forces of Singapore*. He had suggested that Singapore's armed forces were primarily geared to counter Malaysia. Bilateral squabbles over a number of issues—such as the water pumped from Malaysia to Singapore, Malaysia's maintenance of a railway station customs' post in the heart of Singapore, and curtailed access to Malaysian airspace for the Republic of Singapore Air Force (RSAF)—have given the impression that the two countries are in a state of perpetual conflict that could spill over into military hostilities. Yet talk of war by media commentators and even politicians during 2002 prompted the prime ministers of both countries to deny the possibility of armed conflict between the two neighbors. However sensational the headlines, Malaysia and Singapore enjoy a relationship that is the most complementary in ASEAN. Both are heavily interdependent in terms of capital, people movement, goods and services, and resources (particularly water). Only Malaysia and Singapore engage in substantial routine military exercises together as part of FPDA. Both have also placed the threat of terrorism high on the national agenda and even coordinated raids on *Jemaah Islamiyah* (JI) members in December 2001.

BILATERAL DISPUTES

Malaysia and Singapore, separated by a causeway only a kilometer long, have a laundry list of bilateral problems as do, typically, any two neighbors. However, this is complicated by the fact that Singapore seceded from the Federation of Malaysia in 1965 leaving a number of entanglements and lingering suspicions that remain till today.

The issue that caused the split between Malaysia and Singapore was Malaysia's insistence on political favoritism for indigenous Malays. Singapore, which has remained just under 80 percent ethnic Chinese since independence, rejected this notion arguing that only a merit-based system could underscore economic and social development. The then-leader of Singapore, Lee Kuan Yew, had argued for a "Malaysian Malaysia" which is used as a short-hand term for the removal of favoritism for ethnic Malays while Singapore was still part of Malaysia. Bitterness and stereotyping have remained a prominent feature of the relationship discourse, at least at the popular level. Singaporean commentators have expressed the view that Malaysia has never fully come to terms with the separation. There is also a discernable sense in Singapore that Malaysian leaders, particularly former Prime Minister Mahathir Mohammad, have used Singapore as a hot button issue to shore up domestic popularity. Singapore's Foreign Minister S. Jayakumar told the Singaporean parliament in 2003 that—in reference to the water issue—Malaysia views Singapore as "insensitive, arrogant, unneighborly, selfish, profiteering, and legalistic." Malaysian criticisms are different. According to writer Munir A. Majid in the *New Straits Times*, Singapore insists on "strict legality and technicality" in order to put its own self-interest above being a constructive neighbor. Munir also argues that the existence of the ringgit and the trading of Malaysian shares in Singapore "helped to seriously damage" the Malaysian economy during the 1997 financial crisis. (Singapore has also faced the accusation of currency meddling by Indonesia's leaders.)

The contempt of familiarity still plays out in the bilateral relationship. In early 2002 when Singapore banned four schoolgirls—Singaporeans of Malay ancestry—from wearing the *tudung* (headscarf) in school, various Malaysian leaders weighed into the debate. Not only did the Malaysian Ministry of Education consider the application of one of the children for schooling in Malaysia, the Islamist opposition party *Parti Islam SeMalaysia* (PAS) even offered financial and legal support to parents in the case. Singapore's Prime Minister Goh Chok Tong was moved to request that Singaporeans be wary of foreign interference on the issue. The *tudung* case exemplifies how domestic politics in one country affects the other.

In many ways, the two economies are complementary though Malaysia and Singapore are also commercial rivals. Both sit astride the world's most strategic sea-lanes. Malaysia's Port of Tanjung Pelepas (PTP), which opened in 2000, is not only the world's fastest growing port but now ranks in the world's top twenty ports. Lying just to the east of Singapore, the Malaysian port is in direct competition to Singapore and has poached some of its leading patrons. Yet Malaysia has long suspected Singapore of engaging in unfair competition. For example, Malaysia and Singapore agreed in 2001 to replace the old causeway—which blocks some of Malaysia's potential customers—with a high bridge that would allow navigation of the Johore Strait. Since then, Singapore has consistently refused to continue negotiation on the project arguing that a host of bilateral problems needs to be addressed first.

The chief bilateral issue facing Malaysia and Singapore is that of water. Although Singapore now claims to supply nearly 50 percent of its own water needs, it still depends heavily on water piped from the Malaysian state of Johore. Water supply became the most contentious issue in the relationship when Malaysia began to apply pressure over the price. Based on soft agreements made to entice Singapore into the Federation of Malaysia in the early 1960s, Singapore pays a mere three Malaysia sen (US\$0.008) per 1,000 gallons of water, which the Malaysian government estimates is US\$0.15 per Singaporean per year (based on 2001 figures). Singapore actually returns treated water to the state of Johore—at a loss, per Singapore—though Kuala Lumpur counters that the “subsidy” in no way makes up for initial losses to Malaysia. Without fully entering the labyrinth of “water talks” between Malaysia and Singapore with its claims and counterclaims, Malaysia seems to want a “fairer” price. Singapore insists that the existing deal cannot be reworked and accuses Malaysia of “shifting the goalposts” by first demanding 45 sen and then 60 sen. Malaysia counterclaims that the price of 60 sen has been the fair price all along. An arbitrary price increase, says Singapore, will not impoverish Singapore but violates the sanctity of an agreement. Foreign Minister S. Jayakumar believes that Malaysia will ultimately seek a massive increase in the price to 8 ringgit per 1,000 gallons. Renegotiating the deal is thus the thin end of the wedge. And, as a Singapore government brief on the issue makes plain, “[I]f 3 sen per 1,000 gallons is a ridiculous price, it was Malaysia's own doing.” The Malaysian government, despite the price haggling, has promised that it will “never” stop the flow of water into Singapore. To do so would be an act of war toward Singapore given that country's dependence.

There are other issues that have caused arguments between the two countries. Singapore's attempt to relocate Malaysian customs away from the Tanjung Pagar train station (located in the heart of Singapore but owned by Malaysian rail) has met with resistance from Kuala Lumpur. This refusal has led to an unusual situation: Passengers boarding in Singapore must pass Malaysian customs first before stopping at the

Woodlands station to pass Singaporean customs. Singapore has also refused an early release of compulsory retirement savings put aside for Malaysian workers in Singapore under the Central Provident Fund (CPF). Another sore point is Singapore's ongoing land reclamation, which will impact the sea boundaries under Law of the Sea arrangements: Malaysia claims the reclamation is done with illegally smuggled Malaysian soil. Malaysian officials have made it plain that they expect Singapore to consult with them on this issue before proceeding, while Singapore tends to view this as a domestic affair. An ongoing sovereignty dispute over Pulau Batu Putih, a small island claimed by both countries, has been shelved temporarily with both countries agreeing to present their case to the International Court of Justice (ICJ). (Malaysia may be buoyed by its success in the ICJ against Indonesia over sovereignty of two small islands a few years ago.)

These bilateral problems have made an impact on strategic and defense issues. Malaysia has ended an old arrangement that allowed the Singaporean air force automatic access to Malaysian airspace, presumably as punishment for Singapore's perceived lack of cooperation on the other bilateral problems. Given the geographic restrictions on the tiny country of Singapore, this now presents a major obstacle to the RSAF. In terms of policing the immediate environs, Malaysia and Singapore also have expressed differing opinions. In response to the rising levels of piracy in the Malacca Straits (now responsible for more than half of all pirate attacks worldwide), Singapore wants U.S. involvement in patrolling the Malacca Straits. Malaysia (and Indonesia) object to this outside involvement. In June 2004, Malaysian Foreign Minister Syed Hamid Albar scotched this particular Singaporean proposal although he did not dismiss the nature of the problem. The minister instead argued that it may provoke Islamic militants to enter the region by providing them with American targets of opportunity. In disagreeing with Singapore, Syed Hamid tempered his remarks by adding that Malaysia's approach to security of the vital waterway differed only in "style" from that of Singapore. The subtext of this remark is that both countries ultimately share the same concerns and interests regarding the security of the Straits.

These bilateral problems, stemming from a host of historical and recent factors, are serious and have caused bitterness in the relationship. The war of words between officials on both sides sometimes gives the respective domestic publics and other observers the impression that these disputes could lead to outright conflict. Naturally, militaries prepare for the unseen future, but at present none of these bilateral problems threaten to lead to actual armed conflict, which is confirmed by senior politicians in Malaysia and Singapore. The major areas of bilateral cooperation mitigate against the relationship seriously spinning out of control.

BILATERAL COOPERATION

The proximity of Malaysia and Singapore and their intertwined history, as already noted, have also led to a level of bilateral cooperation which exceeds that of any other bilateral relationship within ASEAN.

The most concrete recent example is Malaysia-Singapore cooperation against terrorism. Both states share a serious concern over the emergence of JI in the region. They have coordinated on police work and intelligence sharing, and even synchronized the initial arrests of JI members in December 2001. JI members were imprisoned in both

countries under the Internal Security Act (ISA), which both Malaysia and Singapore patterned after the British law that allows for detention without trial for up to two years for supposedly dangerous suspects. Also, both countries have put pressure on Indonesia to take a more active role in confronting the terrorism problem. Differences between the two countries can still be observed, however, in the rhetoric surrounding how to cope with terrorism. Singapore—while drawing nearer to the United States—has emphasized the growing instances of “fundamentalism” among the region’s Muslims. The Malaysian government—now headed by Prime Minister Abdullah Badawi, a Muslim scholar—acknowledges that “extremist” forces threaten the region but also talks of Western causes for Muslim alienation around the world. While differences can be detected in how the two states view the root causes, both are equally determined to confront the problem. In Malaysia’s case, although Islam is the official state religion, the war on terrorism has also proved useful for ruling authorities in Malaysia to confront Islamist rivals including PAS.

There is indication that some of the past rancor in the relationship is the result of personalities. Prime Minister Abdullah gives every indication of adopting a very different diplomatic tone from his predecessor, the plain-speaking Dr. Mahathir Mohammed. As prime minister, Mahathir remarked that just as there are many ways to skin a cat there are ways to skin Singapore. Singaporeans regarded the tone of this throwaway remark as unfortunate, even an open threat. The verbal sparring with Mahathir continued until he left office. Singapore’s Prime Minister Goh Chok Tong told the media in February 2003, after another of Mahathir’s verbal attacks, that: “Dr. Mahathir is a very good spin doctor. Compare him with the best; I think he spins the story very well. We in Singapore are less good in spinning stories. We prefer the more serious approach, giving facts and figures.” Malaysia, with Abdullah at the helm, has set a very different tone at the personal level, which will carry over into the institutional level. In January 2004, during his first visit to Singapore as prime minister of Malaysia (as part of the traditional tour of ASEAN countries that new leaders make), Abdullah spoke of working through all of the outstanding bilateral problems. By contrast, Mahathir had called off all official talks in Singapore in 2002 over the issue of water. (Nonetheless, even Mahathir tempered his strong remarks. In January 2003, Mahathir felt it necessary to publicly promise that Malaysia would never go to war with Singapore over “territorial gains.”) As another example of a general thaw, recently the Malaysian government announced a US\$2.6 million Third Countries Business Development fund, which is double the existing fund, to enable businesses from Malaysia and Singapore to jointly develop outside market opportunities.

In another sense Singapore is relieved with the new Malaysian prime minister’s commitment to confront, in their view, radical Islam. Abdullah’s overwhelming victory in the 2004 elections would have been greeted with applause in Singapore, a country more at home with the ruling Barisan Nasional government and fearful of the Islamist opposition PAS.

Security in and around the countries of maritime Southeast Asia is another common interest. Malaysia and Singapore also have long-standing defense ties that date back to pre-independence times. A modicum of this historic relationship continues to thrive with the FPDA. The FPDA also includes Britain, Australia, and New Zealand. It features annual exercises that allow the five countries to standardize procedures. Recently the defense ministers of both countries, Najib Razak (Malaysia) and Teo Chee Hean (Singapore), publicly stressed the importance of the alliance. In June 2004 the five defense ministers agreed to expand the scope of the FDPA to include anti-terrorism drills.

CONCLUSION

In summary, bilateral cooperation between Malaysia and Singapore is deep and substantial, a point often overlooked in the daily blow-by-blow reporting of diplomatic disputes. The bilateral disagreements are serious and require careful diplomacy to disentangle, but the relationship seems strengthened to a degree with the emergence of the Abdullah administration in Malaysia. On issues of fundamental importance to security, Malaysia and Singapore can and will engage in substantial cooperation. Furthermore, people-to-people linkages are widespread throughout the two countries. Aside from a vast network of family relationships across the causeway, many citizens in each country live, work, and study in the other.

The Malaysia-Singapore relationship is a valuable partnership from Washington's point of view, particularly in light of the war against terrorism. Both countries are deeply committed to confronting terrorism in their own countries and in the wider region. Both have also proved to be useful partners for the United States even if there are divergences of policy and interpretation. (Malaysia's criticism of U.S. foreign policy is most striking in this regard, but Singapore too has criticized America's policies in the Middle East.) Together with the Philippines, they have been the principle cheerleaders in ASEAN for greater steps against the terrorist problem. They have, for example, been active in persuading a reluctant administration in Jakarta to confront the JI threat.

Singapore in particular has been the most active partner for Washington although Singapore and the United States have had their differences in the past, largely over human rights and democracy issues. While Singapore was supportive of U.S. military operations in Afghanistan and Iraq, the Malaysian government has felt compelled to criticize both campaigns. Although Malaysia constantly urges the United States to make foreign policy corrections, usually regarding Palestine, the bottom line is that it shares Washington's concerns about terrorist groups, particularly those linked to the al Qaida network.

The risk of war between Malaysia and Singapore should be regarded as extremely low at this point in time, which should be welcome news to the United States and other countries that have substantial interests in the free flow of shipping through Southeast Asia. There are now promising signs of growing warmth in the relationship between Malaysia and Singapore, but even in less encouraging times Malaysia and Singapore have proven that they can cooperate on issues of high politics.



SPECIAL ASSESSMENT

OCTOBER 2004

Asia's Bilateral Relations

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India-Pakistan Relations: Breaking With the Past?

ROBERT G. WIRSING

Executive Summary

- Since April 2003, a major initiative to mend ties has been underway between traditional archrivals India and Pakistan, raising the prospect of a permanent break with the past.
- A “composite dialogue” on all major issues between them was scheduled to begin in spring 2004. Topping the issue-agenda were Kashmir, terrorism, nuclear and conventional arms, and bilateral trade.
- Grounds exist for optimism about the talks, even about Kashmir where the history of bilateral negotiations has been disappointing, but skepticism is also warranted when it comes to the capacity and willingness of Indian and Pakistani leaders to sustain serious dialogue.
- The unexpected defeat of the ruling Bharatiya Janata Party (BJP) in India’s spring 2004 parliamentary elections clearly disrupted—and held the potential to derail—the just-begun dialogue process.
- To the extent that a break with the past is seriously underway, it is in its infancy and faces huge and possibly insurmountable obstacles. Its ultimate fate, in any event, will be determined by far more than the good intentions of the two countries’ current leaderships.
- The United States has recently enjoyed simultaneously positive relations with both India and Pakistan. Its stakes in the outcome of the scheduled bilateral talks are very large. U.S. strategic stakes include prosecution of the war on terrorism, counterproliferation, and a possible Indian role in the containment of China.
- Heavily preoccupied elsewhere, Washington shows little inclination to assume a leading public role in conflict-resolving activities between India and Pakistan, relying instead on private appeals and the efforts of the two countries. In any event, its leverage, though considerable, is likely to prove somewhat illusory.

INTRODUCTION

India and Pakistan are the world's second and sixth most populous nations. They have a history of bitter rivalry, including four wars with one another (the most recent in 1999 over Kargil) since achieving independence from Great Britain in 1947. Their back-to-back detonations of nuclear explosives in May 1998 unequivocally demonstrated to the world the mounting muscularity of their nuclear weapons programs. Their steady progress in the development of ballistic missiles underscored the gravity of the danger. They are the two largest and most powerful member-states of the South Asian Association of Regional Cooperation (SAARC), the success of which in promoting regional economic and social development has been held hostage to their hostility since the group's founding in 1985. Unexpectedly, during the past few years these two historic rivals are simultaneously enjoying unusually close ties with the United States: India, having largely abandoned its past commitment to nonalignment, has been busily crafting a defense-oriented "strategic partnership" with Washington; and Pakistan, a vital member of Washington's post-September 11 global counterterrorist coalition, has recently found itself rewarded with the prized status of "non-NATO major ally." In short, India and Pakistan are significant players in global as well as regional politics; thus the question of how well their bilateral relationship fares is important to the United States and other countries.

BACK FROM THE BRINK: INDIA-PAKISTAN RELATIONS 2001-2004

The pace of improvement in India-Pakistan relations since April 2003, when then Indian Prime Minister Atal Bihari Vajpayee offered a "hand of friendship" to Pakistan in what he called a last effort to mend ties, has been breathtaking. In the space of a year, the two archrivals managed to:

- restore the rail, bus, and air links that had been cut in the wake of the terrorist attack on Parliament House in New Delhi in December 2001;
- agree to a cease fire not only on the 740 kilometer Line of Control (LoC) dividing their forces in Jammu and Kashmir but also on the remote Siachen Glacier, where guns had not been silenced since Indian forces took possession of the area in April 1984;
- commit themselves in early January 2004 at the close of the 12th SAARC summit in Islamabad to revive bilateral talks broken off when the last peace initiative between India and Pakistan floundered at Agra in July 2001;
- lay the groundwork in spring 2004 for comprehensive and simultaneous negotiations with an eight-point agenda covering all major issues between them, including Kashmir; and
- successfully conclude on April 13, 2004 the Indian cricket team's first test tour of Pakistan in fourteen years—the most public sign that a serious thaw was in progress.

The change in India-Pakistan relations is all the more remarkable considering the circumstances that immediately preceded it. Most dramatically, for a period of ten months in 2002, upwards of a million Indian and Pakistani troops had squared off menacingly against one another along the lengthy border separating their two countries. India and Pakistan seemed then on the brink of war. With that episode's peaceful conclusion, India and Pakistan have clearly stepped back from the brink. The question remains, of course, whether this undeniably momentous turn of events marks a permanent break with the past. One part of the answer can be sought in the unsettled issues that are likely to surface on the agenda of talks planned between them.

AGENDA FOR TALKS: THE ISSUES

At the Islamabad SAARC summit, Prime Minister Vajpayee and Pakistani President Pervez Musharraf agreed to the early resumption of "composite dialogue" on all major issues. The foreign secretaries of the two countries worked out a preliminary timetable for the talks at a meeting in Islamabad on February 18. Due to India's intervening national elections, conducted in phases in late April to early May 2004, the meeting of the two countries' foreign ministers was postponed until August. Expert-level talks and further preparatory meetings of the foreign and defense secretaries were conducted in May and June. Judging from the last time composite talks were undertaken by the two sides in the so-called "6 + 2" integrated format of discussions begun in October 1998, longstanding disputes over the Wullar Barrage (Tulbul Project), Siachen Glacier, and Sir Creek were bound to receive attention, along with drug trafficking and cultural exchanges. Likely to top the list of issues on the agenda, however, were Kashmir, terrorism, nuclear confidence-building measures, and what Pakistanis were calling "strategic stability," the balance of nuclear and conventional weapons. Promotion of bilateral trade was also certain to be high on the agenda.

KASHMIR

Between 1947 and the present, India and Pakistan have held direct bilateral talks in which Kashmir was an agenda item on nearly twenty-five separate occasions. A few of these talks (Karachi 1949; Tashkent 1966; Simla 1972) accomplished immediate objectives: They formally brought war to an end and provided for such things as repatriation of POWs, return of occupied territories, or establishment of ceasefire lines. They all failed on the larger issue of Kashmir's ultimate disposition. The only major discussions involving Kashmir that resulted in workable and sustainable agreements were those that led to the 1960 Indus Waters Treaty. That treaty still stands. However, it was internationally mediated and international funding was a pivotal element in its implementation. If its historical record is any guide, talks on the subject of Kashmir in a strictly *bilateral* framework seem doomed from the start.

Is the time ripe for settling Kashmir? There are clearly some reasons to think so. One is that leaders from both sides have made explicit and repeated mention in recent months of their belief in the need to move away from irreconcilable stated positions. A second is that these leaders both appear dismayed by the baleful effects that more than a half-

century of intransigence over Kashmir has had on their economies. With large sections of its population still mired in poverty, the South Asian region's attractiveness to foreign investors suffers from a global reputation as a nuclear flashpoint. A third is that there is strong evidence, including some polling results, indicating that Kashmiris themselves are insurgency-fatigued and willing to settle for much less than either accession to Pakistan or *azadi* (the state's complete freedom from either India or Pakistan). New Delhi's offer of direct talks with the militant Kashmiri Muslim leadership of the All-Parties Hurriyet Conference (APHC), another prong in its peace initiative, is almost certainly traceable to this perceived weakness in the separatist cause. A fourth and perhaps the most important reason for thinking that the time is ripe, if not for final resolution then at least for agreement to sustain the present ceasefire, is that Pakistan's foreign policy establishment seems to have come to the conclusion that coming to terms with India is the best of a number of largely unattractive strategic options available. Islamabad simply cannot contend all at once, in other words, with an irate India, still chaotic Afghanistan, embarrassing disclosures about its past nuclear proliferation practices, and—a factor more than ever driving change in regional calculations of strategic alternatives—American expectations that Islamabad cooperate in the war on terrorism.

On the darker side of the ripeness issue, it seems, are the results of India's just-concluded 2004 parliamentary elections. Defying expectations, the ruling Bharatiya Janata Party (BJP) went down in defeat, inevitably spreading a cloud of uncertainty over the just-begun dialogue process. After all, much of the credit for launching the peace initiative belonged to the ousted Prime Minister Vajpayee, whose towering popularity had enabled him to enlist the acquiescence in the initiative of his Hindu nationalist political allies. The incoming Congress party-led coalition is likely to be preoccupied for some time with its own survival in power, and that preoccupation, while it may not actually derail the dialogue process, could well rule out the kinds of imaginative statesmanship and political risk-taking that many observers believe are essential to its success.

It's important to bear in mind, in any event, that neither side—regardless of who is in power—is likely to favor appeasing its old adversary on the issue of Kashmir without receiving major concessions in connection with other issues on the agenda, including some that almost certainly matter more in ruling circles than Kashmir. In other words, a resolution of the Kashmir issue—which in itself is complicated—depends upon progress on other contentious issues, which highlights the extraordinary difficulty of the path ahead.

CONVENTIONAL AND NUCLEAR ARMS

Any attempts by India and Pakistan to negotiate bilateral arms agreements are likely to run afoul of the considerable instability currently characterizing the existing arms balances, conventional and nuclear, between them. Current conventional and nuclear arms inventories and the actions of India and Pakistan indicate that they are not on an unrestrained peace binge. On the contrary, they are two of the largest spenders on defense in the world. Both sides are currently outfitting their military forces in ways that, while perhaps fully defensible on prudential grounds, inevitably appear threatening or even provocative to the other. Given the considerable power disparity between them arising from the conspicuous asymmetries—geographic, demographic, economic, and military—in their relationship, it could scarcely be otherwise. The military balance between India and Pakistan is at least as important as Kashmir.

Some of India's most recent planned arms acquisitions, including purchases from Russia of the \$1.5 billion Admiral Gorskoy aircraft carrier and from Israel of three state-of-the-art Phalcon AWACSs could give India, according to some arms experts, a measurable military edge over Pakistan. The edge would likely be further widened if India were to add both nuclear power and cruise missiles, potentially nuclear-tipped, to its growing submarine fleet. If recent reports prove accurate that Indian defense scientists have succeeded in developing mini-nukes or low-yield "boutique" nuclear bombs for battlefield use, India's military equation with Pakistan might, in fact, be radically turned to Pakistan's disadvantage. India's diligent construction of new air and naval bases, along with its nascent but far from trivial military connections with Iran and Northern Alliance-ruled Afghanistan, both in Pakistan's backyard, also carry serious warnings for Pakistan's defense strategists.

Pakistani military planners are, of course, not without their own ambitions for increasing the reach, lethality, and efficiency of the country's conventional and nuclear weapons systems. In January 2003, the nuclear-capable medium-range (1,500km) Ghauri missile came into service, bringing a huge expanse of India well within range. Pakistan's planned serial production beginning in 2006 of the JF-17 Thunder fighter aircraft, developed in close collaboration with the Chinese, naturally arouses concern in New Delhi, perhaps less because of its immediate combat potential than because of the long-range strategic implications of the Chinese connection. Regarding China, Indians are bound to wonder about the implications of the opening in a year or two of the largely China-financed port and navy base at Gwadar on Pakistan's Baluchistan coast.

Pakistan's interest, then, in placing agreed bilateral restraints on weapons development and acquisition is readily understandable but it collides with India's great power aspirations and much larger strategic canvas. That canvas obviously includes China, whose superiority over India—arguably in conventional forces, unquestionably in nuclear forces—is a constant stimulus to yet greater exertion by India's defense planners. Confronting any imagined arms accord between Islamabad and New Delhi are thus two awkward asymmetrical arms relationships—that between India and Pakistan and between India and China.

TERRORISM

At the SAARC summit in January 2004, India and Pakistan jointly signed a seemingly stringent Additional Protocol to the 1987 SAARC Regional Convention on Suppression of Terrorism. Most of the organizations banned by India in recent years under the Public Order and Terrorism Act (POTA) have been headquartered in Pakistan, however, and the Indian government officially claims that over 75 percent of "foreign terrorists" killed or arrested since the outbreak of the Kashmir insurgency in the early 1990s were from Pakistan. The Musharraf government has been under unusually strong pressure from Washington to halt activities of terrorist groups said to be operating from its soil; but skepticism is rampant, and not only in India, about the depth of Islamabad's determination to accomplish the job. As a scathing report issued by the International Crisis Group (ICG) within days of the signing of the new SAARC anti-terrorism protocol put it, the Musharraf government's pledge of sweeping reforms of Pakistan's *madrassahs*—considered by some as key breeding grounds for radical Islamist ideologies and terrorist networks—had essentially come to naught. There was no presidential ordinance

regulating the madrassahs, no new national curriculum has been developed, and most madrassahs remain unregistered. Moreover, tougher controls on the financing of extremist groups have not been implemented.

Pakistani leaders appear well aware that their longstanding practice of labeling insurgents in Kashmir as “freedom fighters” has been bled of virtually all its legitimacy since the events of September 11. They have been reluctant, however, to crack down fully on the militant groups that target India while Pakistan’s armed forces are still engaged in politically high-sensitive military operations against the Taliban and al-Qaeda remnants along Afghanistan’s border. It is also likely, moreover, that a complete shutdown of the anti-India militant groups based in Pakistan would come after, not before, Pakistan has secured equally important concessions from India.

ECONOMIC COOPERATION

The incentives for India and Pakistan to pursue closer commercial and economic ties are considerable. They include major potential benefits to be gained not only from expanded trade but also from the sharing of energy and water resources. For instance, of the several natural gas pipeline routes that have been proposed in recent years to carry gas from Turkmenistan, Iran, or Qatar to gas-deficient India, by far the cheapest and technically most feasible route is the land route across Pakistan. That route has thus far won little support from India, whose leaders have appeared reluctant either to make its gas supply in any measure hostage to its political relations with Pakistan or to reward Pakistan with handsome conduit fees without first having wrung concessions from Islamabad on other unsettled issues between the two countries.

Unfortunately, there is not much of a trading relationship between India and Pakistan to act as a foundation for added economic and commercial ties. The following tabular data presents trade statistics for 2002. Arrestingly visible is the fact that major trading partners for both India and Pakistan are the world’s more advanced industrial states—North American, European, and Asian—and not their South Asian regional neighbors with whom both their import and export trade are relatively miniscule.

Economists have never tired of listing the huge structural impediments to heightened intra-regional trade in South Asia. Foremost on most every list are these reasons: The region’s economies are low in per capita income and low in export potential, and for the most part, competitive rather than complementary in the range of goods produced. Allegedly, illicit trade between India and Pakistan runs upwards of \$1 billion or so per annum, suggesting a potential for expansion not visible in the tables. Some economists claim that two-way trade could reach \$6 billion once the South Asian Free Trade Area (SAFTA), which was agreed upon by the region’s leaders at the 12th SAARC summit, comes into being in January 2006. For the moment, however, dramatic expansion in market opportunities between India and Pakistan is more likely to come as a reward for than as a cause of improved bilateral relations.

	Direction of Trade 2002 SAARC Countries, % of Imports			Direction of Trade 2002 SAARC Countries, % of Exports		
	Industrial States	Asia	SAARC	Industrial States	Asia	SAARC
Bangladesh	25.4	55.1	15.6	74.1	04.9	01.4
Bhutan	na	na	na	na	na	na
India	35.9	22.4	01.1	52.3	23.4	05.7
Maldives	18.5	63.3	33.7	70.2	26.8	13.5
Nepal	17.8	56.0	39.6	46.1	51.1	48.9
Pakistan	34.3	25.8	02.3	57.0	18.2	03.0
Sri Lanka	30.0	53.4	15.5	73.6	10.5	04.9

AMERICA IN THE INDIA-PAKISTAN RELATIONSHIP

The United States has been engaged for a half century in a delicate power balancing act in the subcontinent, at times tilting toward Pakistan—such as during the decade of war in Afghanistan following the Soviet invasion of 1979—and at other times toward India such as during the Clinton administration from 1996 to 2000. In a few instances such as post-September 11, the United States has seemed to tilt simultaneously toward both of them. The closeness of current ties with Pakistan is obviously derivative of the war on terrorism: Pakistan shares a border and ethnic ties with Afghanistan and is intimately familiar with the Afghan political landscape. These factors along with its well-honed habits of collaboration with Washington have given Pakistan its natural geostrategic importance. In India's case, the habits of collaboration with Washington have been late in developing and have yet to reach the levels sometimes recorded in the history of U.S.-Pakistan relations. Economic ties between India and the United States have expanded remarkably in recent years, however, and a spate of joint military exercises and arms agreements between them give promise of developing into a qualitatively new kind of strategic partnership. For some commentators in Washington and elsewhere, no small part of the motivation for building the partnership rests on India's potential role in the containment of China, a role that remains largely hypothetical.

By no means are Washington's present ties with Pakistan and India entirely trouble-free. For one thing, Pakistan's nuclear wheeling and dealing in the last several years has aroused substantial anxiety in the United States over the safety of Islamabad's nuclear weapons program. Pakistan's wobbly commitment to democratic rule is also problematic for Washington, and both the Indian and Pakistani governments have reservations, so far largely muted in public, about Washington's Iraq policy. Over the long term, both governments remain deeply suspicious of Washington's intentions, especially of its willingness and ability to maintain current commitments.

Heavily preoccupied elsewhere, Washington has been extremely reluctant to assume a leading public role in conflict-resolving activities between India and Pakistan. Kashmir, in particular, has acquired a reputation in the United States as an unusually sticky tar baby; Washington has generally been content so far to rely on private appeals and the efforts of the two countries to resume bilateral talks. President Clinton's conspicuous involvement

as informal mediator of the Kargil conflict in July 1999 stands as recent testimony of the potential for a more direct American role. Until India shows greater warmth for the idea, however, it is likely to remain essentially untested.

Maintaining friendly ties with the United States remains a matter of utmost importance to both India and Pakistan. Thus, pacifying the United States—avoiding actions that might upset the inherently delicate trilateral arrangement currently in place—naturally figures in calculations made in regard to their relationship with one another. This clearly gives Washington extraordinary leverage, including some capacity for stabilizing and even refashioning India-Pakistan relations. When compelling national interests are at stake, however, Washington's leverage is likely to prove somewhat illusory.

CONCLUSION: PROSPECTS OF CHANGE

What about the question posed at the outset of this discussion—namely, whether the undeniably momentous turn of events witnessed in India-Pakistan relations during the past year marks a permanent break with the past? Do these events mean that India and Pakistan are on the verge of burying the hatchet once and for all? Is there a new, peace- and cooperation-oriented mindset spreading through the region? Or is the world witnessing a temporary suspension of the old rivalry—a laying aside of swords, so to speak, rather than their conversion into plowshares—brought on by a rush of economic, political, diplomatic, and strategic pressures that have elicited pragmatic adjustments from both countries? Do these events represent, in Pakistan's case, little more than a tactical retreat from a dangerously exposed position, and in India's case, merely an expedient show of magnanimity toward its outflanked rival? The answer, very likely, is that the break with the past, to the extent that it is seriously underway at all, is in its infancy; it faces huge and possibly insurmountable obstacles and its ultimate fate, in any event, will be determined by far more than the good intentions of the two countries' current leaderships.